

PRELIMINARY OFFICIAL STATEMENT DATED MAY 8, 2025

In the opinion of Taft Stettinius & Hollister LLP, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, at the time of the issuance of the Bonds, the interest on the Bonds is excluded from gross income for federal income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions). Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or for purposes of the Minnesota alternative minimum tax applicable to individuals, estates or trusts; however, interest on the Bonds is taken into account in determining "annual adjusted financial statement income" for the purpose of computing the federal alternative minimum tax imposed on certain corporations for tax years beginning after December 31, 2022. No opinion will be expressed by Bond Counsel regarding other state or federal tax consequences. See "TAX EXEMPTION" herein.

The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

New Issue

Rating Application Made: S&P Global Ratings

CITY OF MONTGOMERY, MINNESOTA (Le Sueur County)

\$6,125,000* GENERAL OBLIGATION BONDS, SERIES 2025A

PROPOSAL OPENING: May 19, 2025, 10:00 A.M., C.T.

CONSIDERATION: May 19, 2025, 7:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The \$6,125,000* General Obligation Bonds, Series 2025A (the "Bonds") are being issued pursuant to Minnesota Statutes, Section 412.301 and Chapters 429, 444 and 475, as amended, by the City of Montgomery, Minnesota (the "City"), for the purposes of financing various public improvements, the acquisition of capital equipment and construction of various utility system improvements within the City. The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Taft Stettinius & Hollister LLP, Minneapolis, Minnesota.

DATE OF BONDS: June 5, 2025

MATURITY: February 1 as follows:

| <u>Year</u> | <u>Amount*</u> | <u>Year</u> | <u>Amount*</u> | <u>Year</u> | <u>Amount*</u> |
|-------------|----------------|-------------|----------------|-------------|----------------|
| 2027 | \$335,000 | 2032 | \$400,000 | 2037 | \$395,000 |
| 2028 | 350,000 | 2033 | 410,000 | 2038 | 415,000 |
| 2029 | 360,000 | 2034 | 435,000 | 2039 | 435,000 |
| 2030 | 370,000 | 2035 | 450,000 | 2040 | 450,000 |
| 2031 | 385,000 | 2036 | 465,000 | 2041 | 470,000 |

***MATURITY ADJUSTMENTS:** The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

TERM BONDS: See "Term Bond Option" herein.

INTEREST: February 1, 2026 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing on February 1, 2036 and thereafter are subject to call for prior optional redemption on February 1, 2035 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

MINIMUM PROPOSAL: \$6,051,500.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$122,500 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation.

BOND COUNSEL: Taft Stettinius & Hollister LLP.

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

BOOK-ENTRY-ONLY: See "Book-Entry-Only System" herein (unless otherwise specified by the purchaser).



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REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. ***This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.***

This Preliminary Official Statement is not to be construed as a contract with the Underwriter (Syndicate Manager). Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers and Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the City and other sources for which there is reasonable basis for believing the information is accurate and complete. Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers and Associates, Inc., payable entirely by the City, is contingent upon the delivery of the Bonds.

COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over \$1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule").

Preliminary Official Statement: This Preliminary Official Statement was prepared for the City for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

Review Period: This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers and Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

Final Official Statement: Copies of the Final Official Statement will be delivered to the Underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

Continuing Disclosure: Subject to certain exemptions, issues in an aggregate amount over \$1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the City is required to comply with the Rule.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the Underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the City nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the City which indicates that the City does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

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CITY OF MONTGOMERY CITY COUNCIL

| | | <u>Term Expires</u> |
|---------------|----------------|---------------------|
| Thomas Eisert | Mayor | January 2027 |
| Brad Kubes | Council Member | January 2029 |
| Zack Matson | Council Member | January 2027 |
| Mick McGuire | Council Member | January 2027 |
| Dan Siebsen | Council Member | January 2029 |

ADMINISTRATION

Brian Heck, City Administrator
Patricia Soukup, Clerk-Treasurer

PROFESSIONAL SERVICES

Christian, Keogh, and Moran, Attorneys at Law, City Counsel, Montgomery, Minnesota

Taft Stettinius & Hollister LLP, Bond Counsel, Minneapolis, Minnesota

Ehlers and Associates, Inc., Municipal Advisors, Roseville, Minnesota
(Other office located in Waukesha, Wisconsin)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding the City of Montgomery, Minnesota (the "City") and the issuance of its \$6,125,000* General Obligation Bonds, Series 2025A (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the issuance and sale of the Bonds ("Award Resolution") to be adopted by the City Council on May 19, 2025.

Inquiries may be directed to Ehlers and Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the City's municipal advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the Bond Sales link and following the directions at the top of the site.

THE BONDS

GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of \$5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of June 5, 2025. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2026, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2027 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The City has selected Bond Trust Services Corporation, Roseville, Minnesota ("BTSC"), to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on or after February 1, 2036 shall be subject to optional redemption prior to maturity on February 1, 2035 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

AUTHORITY; PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Section 412.301 and Chapters 429, 444 and 475, as amended, by the City, for the purposes of financing: (i) the City's street, sanitary sewer and potable water improvement project in 2025 (the "Improvement Portion"); (ii) the purchase of a fire truck (the "Equipment Certificates Portion"); and (iii) the storm water improvement projects throughout the City (the "Utility Revenue Portion").

All equipment has an expected useful life at least as long as the term of the Equipment Portion of the Bonds. Pursuant to Minnesota Statutes, Section 412.301, if the par amount of the Equipment Portion of the Bonds exceed 0.25% of the estimated market value of taxable property in the City, the Equipment Portion of the Bonds shall not be issued until after publication of the council resolution determining to issue the Equipment Portion of the Bonds and the issuance is subject to petition. The estimated market value of taxable property in the City for taxes collectible in 2024 is \$380,545,100. The par amount of the Equipment Portion of the Bonds does not exceed 0.25%, or \$951,363, and is therefore not subject to the limitation.

ESTIMATED SOURCES AND USES*

| Sources | Improvement Portion | Utility Revenue Portion | Equipment Certificates Portion | Total Bond Issue |
|---------------------------------------|---------------------|-------------------------|--------------------------------|--------------------|
| Par Amount of Bonds | \$4,655,000 | \$740,000 | \$730,000 | \$6,125,000 |
| Prepaid Assessments | <u>157,215</u> | <u>-</u> | <u>-</u> | <u>157,215</u> |
| Total Sources | \$4,812,215 | \$740,000 | \$730,000 | \$6,282,215 |
| Uses | | | | |
| Total Underwriter's Discount (1.200%) | \$55,860 | \$8,880 | \$8,760 | \$73,500 |
| Costs of Issuance | 69,920 | 11,115 | 10,965 | 92,000 |
| Capitalized Interest | 124,657 | 19,796 | 18,395 | 162,848 |
| Deposit to Construction Fund | 4,559,096 | 699,616 | 692,435 | 5,951,147 |
| Rounding Amount | <u>2,682</u> | <u>592</u> | <u>(555)</u> | <u>2,719</u> |
| Total Uses | \$4,812,215 | \$740,000 | \$730,000 | \$6,282,214 |

*Preliminary, subject to change.

Breakdown of Principal Payments*:

| Payment Date | Improvement Portion | Utility Revenue Portion | Equipment Certificates Portion | Total Bond Issue |
|---------------------|----------------------------|--------------------------------|---------------------------------------|-------------------------|
| 2/01/2027 | \$235,000 | \$40,000 | \$60,000 | \$335,000 |
| 2/01/2028 | 245,000 | 40,000 | 65,000 | 350,000 |
| 2/01/2029 | 255,000 | 40,000 | 65,000 | 360,000 |
| 2/01/2030 | 260,000 | 40,000 | 70,000 | 370,000 |
| 2/01/2031 | 270,000 | 45,000 | 70,000 | 385,000 |
| 2/01/2032 | 280,000 | 45,000 | 75,000 | 400,000 |
| 2/01/2033 | 290,000 | 45,000 | 75,000 | 410,000 |
| 2/01/2034 | 305,000 | 50,000 | 80,000 | 435,000 |
| 2/01/2035 | 315,000 | 50,000 | 85,000 | 450,000 |
| 2/01/2036 | 330,000 | 50,000 | 85,000 | 465,000 |
| 2/01/2037 | 340,000 | 55,000 | - | 395,000 |
| 2/01/2038 | 360,000 | 55,000 | - | 415,000 |
| 2/01/2039 | 375,000 | 60,000 | - | 435,000 |
| 2/01/2040 | 390,000 | 60,000 | - | 450,000 |
| 2/01/2041 | <u>405,000</u> | <u>65,000</u> | <u>-</u> | <u>470,000</u> |
| Total | \$4,655,000 | \$740,000 | \$730,000 | \$6,125,000 |

*Preliminary, subject to change.

SECURITY

The Bonds are general obligations of the City for which its full faith and credit and taxing powers are pledged without limitation as to rate or amount.

The City anticipates that the debt service on the Improvement Portion of the Bonds will be paid from a combination of special assessments levied against properties benefitted by improvements financed by the Improvement Portion of the Bonds and from ad valorem property taxes. In accordance with Minnesota Statutes, receipt of special assessments and ad valorem property taxes will be sufficient to provide not less than 105% of principal and interest on the Improvement Portion of the Bonds.

The City anticipates that the debt service on the Equipment Certificates Portion of the Bonds will be paid from ad valorem property taxes. In accordance with Minnesota Statutes, receipt of ad valorem taxes will be levied in an amount sufficient to provide not less than 105% of principal and interest on the Equipment Certificates Portion of the Bonds.

The City anticipates that the debt service on the Utility Revenue Portion of the Bonds will be paid entirely from net revenues of the storm water system ("utility revenues") which is owned and operated by the City. In accordance with Minnesota Statutes, receipt of utility revenues will be sufficient to provide not less than 105% of principal and interest on the Utility Revenue Portion of the Bonds.

Should the special assessments, utility revenues and/or ad valorem property taxes pledged for payment of the Bonds be insufficient to pay the principal and interest as the same shall become due, the City is required to pay maturing principal and interest from moneys on hand in any other fund of the City not pledged for another purpose and/or to levy a tax for this purpose upon all the taxable property in the City, without limitation as to rate or amount.

RATING

General obligation debt of the City, with the exception of any outstanding credit enhanced issues, is currently rated "A+"/Stable outlook by S&P Global Ratings ("S&P").

The City has requested a rating on the Bonds from S&P, and bidders will be notified as to the assigned rating prior to the sale. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from S&P.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the City nor the Underwriter (Syndicate Manager) undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

CONTINUING DISCLOSURE

In order to assist brokers, dealers, and municipal securities dealers, in connection with their participation in the offering of the Bonds, to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities and Exchange Act of 1934, as amended (the "Rule"), the City shall agree to provide certain information to the Municipal Securities Rulemaking Board ("MSRB ") through its Electronic Municipal Market Access ("EMMA ") system, or any system that may be prescribed in the future. The Rule was last amended, effective February 27, 2019, to include an expanded list of material events.

On the date of issue and delivery, the City shall execute and deliver a Continuing Disclosure Certificate, under which the City will covenant for the benefit of holders including beneficial holders, to provide electronically, or in a manner otherwise prescribed, certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule (the "Disclosure Undertaking"). The details and terms of the Disclosure Undertaking for the City are set forth in Appendix D. Such Disclosure Undertaking will be in substantially the form attached hereto.

A failure by the City to comply with any Disclosure Undertaking will not constitute an event of default on the Bonds. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

In the previous five years, the City believes it has not failed to comply in all material respects with its prior undertakings under the Rule. The City has reviewed its continuing disclosure responsibilities along with any changes to the Rule, to ensure compliance. Ehlers is currently engaged as dissemination agent for the City.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Taft Stettinius & Hollister LLP, Minneapolis, Minnesota, Bond Counsel to the City ("Bond Counsel"), and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the City; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

By expressing its opinion, Bond Counsel is expressing its professional judgment and does not become an insurer or guarantor of the result indicated by that expression of professional judgment or of the transaction or the future performance of the parties to the transaction. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the applicability of any such state and local taxes.

STATEMENT REGARDING BOND COUNSEL PARTICIPATION

Bond Counsel has neither been engaged nor undertaken to prepare or independently verify the accuracy of any portion of the Official Statement, including the financial or operational information of the Issuer and risks associated with the purchase of the Bonds, except for statements under "TAX EXEMPTION" herein that summarize certain provisions of the Internal Revenue Code of 1986, as amended, the Bonds and any opinion rendered by Bond Counsel. Bond Counsel has prepared the form of legal opinion attached hereto as "APPENDIX B – FORM OF LEGAL OPINION."

TAX EXEMPTION

On the date of issuance of the Bonds, Taft Stettinius & Hollister LLP, Bond Counsel, will render an opinion, that, based on present federal and Minnesota laws, regulations, rulings and decisions, at the time of the issuance of the Bonds, the interest on the Bonds is excluded from gross income for federal income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions). Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or for purposes of the Minnesota alternative minimum tax applicable to individuals, estates or trusts; however, interest on the Bonds is taken into account in determining "annual adjusted financial statement income" for the purpose of computing the federal alternative minimum tax imposed on certain corporations for tax years beginning after December 31, 2022. The opinions are subject to the condition that the City complies with all applicable federal tax requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income and taxable net income, retroactive to their date of issuance. No opinion will be expressed by Bond Counsel regarding other state or federal tax consequences.

Other Federal and State Tax Considerations

Other Tax Considerations

Though excluded from gross income, interest on the Bonds is subject to federal income taxation for certain types of taxpayers and certain income taxes, including without implied limitation, taxation to the extent it is included as part of (a) the adjusted current earnings of a corporation for purposes of the alternative minimum tax, (b) effectively connected earnings and profits of a foreign corporation for purposes of the branch profits tax on dividend equivalent amounts, (c) excess net passive income of an S Corporation which has Subchapter C earnings and profits, or (d) minimum effectively connected net investment income of a foreign insurance company. Interest on the Bonds is also taken into account in other ways for federal income tax purposes, including without implied limitation, (a) reducing loss reserve deductions of property and casualty insurance companies, (b) reducing interest expense deductions of financial institutions, and (c) causing certain taxpayers to include in gross income a portion of social security benefits and railroad retirement benefits. Ownership of the Bonds may result in other collateral federal income tax consequences to certain taxpayers. Bond Counsel expresses no opinion as to any of such consequences, and prospective purchasers who may be subject to such collateral consequences should consult their tax advisers.

Original Issue Discount

Some of the Bonds ("the OID Bonds") may be sold at initial public offering prices which are less than the principal amounts payable at maturity. For each maturity of OID Bonds, original issue discount is the excess of the stated redemption price at maturity of such Bonds over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of such Bonds are sold. The appropriate portion of such original issue discount allocable to the original and each subsequent holder will be treated as interest and excluded from gross income for federal income tax purposes and will increase a holders' tax basis in such Bonds for purposes of determining gain or loss upon sale, exchange, redemption, or payment at maturity. Owners of such Bonds should consult their own tax advisors with respect to the computation and determination of the portion of original issue discount which will be treated as interest and added to a holder's tax basis during the period such Bonds are held.

Original Issue Premium

Some of the Bonds may be sold at initial public offering prices which are greater than the principal amounts payable at maturity. Bondholders who acquire Bonds at a premium should consult their tax advisors concerning the calculation of bond premium and the timing and rate of premium amortization, as well as the federal, state and local tax consequences of owning and selling Bonds acquired at a premium.

Proposed Changes in Federal and State Tax Law

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. No prediction is made whether such provisions will be enacted as proposed or concerning other future legislation affecting the tax treatment of interest on the Bonds. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

The above is not a comprehensive list of all federal tax consequences that may arise from the receipt of interest on the Bonds. The receipt of interest on the Bonds may otherwise affect the federal or State of Minnesota income tax liability of the recipient based on the particular taxes to which the recipient is subject and the particular tax status of other items or deductions. Bond Counsel expresses no opinion regarding any such consequences. All prospective purchasers of the Bonds are advised to consult their own tax advisors as to the tax consequences of, or tax considerations for, purchasing or holding the Bonds.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The Bonds shall be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

MUNICIPAL ADVISOR

Ehlers has served as municipal advisor to the City in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a municipal advisor. Ehlers makes no representation, warranty or guarantee regarding the accuracy or completeness of the information in this Preliminary Official Statement, and its assistance in preparing this Preliminary Official Statement should not be construed as a representation that it has independently verified such information.

MUNICIPAL ADVISOR AFFILIATED COMPANIES

BTSC and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, Colorado, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the City, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the City under an agreement separate from Ehlers.

INDEPENDENT AUDITORS

The basic financial statements of the City for the fiscal year ended December 31, 2024 have been audited by Abdo, Mankato, Minneapolis, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

Following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

Taxes: The Bonds are general obligations of the City, the ultimate payment of which rests in the City's ability to levy and collect sufficient taxes to pay debt service should other revenue (special assessments and utility revenues) be insufficient. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the City in time to pay debt service when due.

State Actions: Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state may affect the overall financial condition of the City, the taxable value of property within the City, and the ability of the City to levy and collect property taxes.

Future Changes in Law: Various State and federal laws, regulations and constitutional provisions apply to the City and to the Bonds. The City can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the City or the taxing authority of the City.

Ratings; Interest Rates: In the future, the City's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

Tax Exemption: If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

Continuing Disclosure: A failure by the City to comply with the Disclosure Undertaking for continuing disclosure (see "CONTINUING DISCLOSURE") will not constitute an event of default on the Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

Levy Limits: The State Legislature has periodically imposed limitations on the ability of municipalities to levy property taxes. While these limitations have expired, the potential exists for future legislation to limit the ability of local governments to levy property taxes. All previous limitations have not limited the ability to levy for the payment of debt service on bonded indebtedness. For more detailed information about Minnesota levy limits, contact the Minnesota Department of Revenue or Ehlers and Associates.

State Economy; State Aids: State of Minnesota cash flow problems could affect local governments and possibly increase property taxes.

Book-Entry-Only System: The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the City to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

Economy: A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the City, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the City may have an adverse effect on the value of the Bonds in the secondary market.

Secondary Market for the Bonds: No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

Bankruptcy: The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

Cybersecurity: The City is dependent on electronic information technology systems to deliver services. These systems may contain sensitive information or support critical operational functions which may have value for unauthorized purposes. As a result, the electronic systems and networks may be targets of cyberattack. There can be no assurance that the City will not experience an information technology breach or attack with financial consequences that could have a material adverse impact.

The foregoing is intended only as a summary of certain risk factors attendant to an investment in the Bonds. In order for potential investors to identify risk factors and make an informed investment decision, potential investors should be thoroughly familiar with this entire Preliminary Official Statement and the Appendices hereto.

VALUATIONS

OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

| Type of Property | 2022/23 | 2023/24 | 2024/25 |
|--|--|--|---|
| Residential homestead ¹ | First \$500,000 - 1.00% Over \$500,000 - 1.25% | First \$500,000 - 1.00% Over \$500,000 - 1.25% | First \$500,000 - 1.00% Over \$500,000 - 1.25% |
| Agricultural homestead ¹ | First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,890,000 - 0.50% ² Over \$1,890,000 - 1.00% ² | First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$2,150,000 - 0.50% ² Over \$2,150,000 - 1.00% ² | First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$3,500,000 - 0.50% ² Over \$3,500,000 - 1.00% ² |
| Agricultural non-homestead | Land - 1.00% ² | Land - 1.00% ² | Land - 1.00% ² |
| Seasonal recreational residential | First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³ | First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³ | First \$500,000 - 1.00% ³ Over \$500,000 - 1.25% ³ |
| Residential non-homestead: | 1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$174,000 - .75% Over \$174,000 - .25% | 1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental: First \$100,000 - .75% Over \$100,000 - .25% | 1 unit - 1st \$500,000 - 1.00% Over \$500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City ⁴ - 1.25% Affordable Rental - .25% |
| Industrial/Commercial/Utility ⁵ | First \$150,000 - 1.50% Over \$150,000 - 2.00% | First \$150,000 - 1.50% Over \$150,000 - 2.00% | First \$150,000 - 1.50% Over \$150,000 - 2.00% |

¹ A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

² Applies to land and buildings. Exempt from referendum market value tax.

³ Exempt from referendum market value tax.

⁴ Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

⁵ The estimated market value of utility property is determined by the Minnesota Department of Revenue.

CURRENT PROPERTY VALUATIONS

| | |
|--|---|
| 2023/24 Economic Market Value¹ | <u>\$370,328,142²</u> |
| 2024/25 Assessor's Estimated Market Value | |
| Real Estate | \$374,348,900 |
| Personal Property | <u>6,196,200</u> |
| Total Valuation | <u>\$380,545,100</u> |
| 2024/25 Net Tax Capacity | |
| Real Estate | \$3,736,572 |
| Personal Property | <u>123,924</u> |
| Net Tax Capacity | <u>\$3,860,496</u> |
| Less: Captured Tax Increment Tax Capacity ³ | <u>(34,865)</u> |
| Taxable Net Tax Capacity | <u>\$3,825,631</u> |

2024/25 NET TAX CAPACITY BY CLASSIFICATION

| | 2024/25 Net Tax Capacity | Percent of Total Net Tax Capacity |
|--|-------------------------------------|--|
| Residential homestead | \$2,664,297 | 69.01% |
| Agricultural | 17,857 | 0.46% |
| Commercial/industrial | 504,904 | 13.08% |
| Public utility | 13,258 | 0.34% |
| Railroad operating property | 44,796 | 1.16% |
| Non-homestead residential | 484,647 | 12.55% |
| Commercial & residential seasonal/rec. | 6,813 | 0.18% |
| Personal property | <u>123,924</u> | <u>3.21%</u> |
| Total | <u>\$3,860,496</u> | <u>100.00%</u> |

¹ Most recent value available from the Minnesota Department of Revenue.

² According to the Minnesota Department of Revenue, the 2023/24 Assessor's Estimated Market Value (the "AEMV") for the City was about 101.30% of the actual selling prices of property sold in the City. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in a 2023/24 Economic Market Value ("EMV") for the City of \$370,328,142.

³ The captured tax increment value shown above represents the captured net tax capacity of tax increment financing districts in the City.

TREND OF VALUATIONS

| Levy Year | Assessor's Estimated Market Value | Assessor's Taxable Market Value | Net Tax Capacity ¹ | Taxable Net Tax Capacity ² | Percent Increase/Decrease in Estimated Market Value |
|-----------|-----------------------------------|---------------------------------|-------------------------------|---------------------------------------|---|
| 2020/21 | \$246,784,500 | \$223,092,400 | \$2,505,708 | \$2,474,092 | 5.49% |
| 2021/22 | 267,056,100 | 243,437,600 | 2,712,485 | 2,680,869 | 8.21% |
| 2022/23 | 336,044,700 | 316,396,700 | 3,465,978 | 3,434,085 | 25.83% |
| 2023/24 | 374,401,500 | 356,487,600 | 3,886,915 | 3,853,997 | 11.41% |
| 2024/25 | 380,545,100 | 351,583,400 | 3,860,496 | 3,825,631 | 1.64% |

LARGEST TAXPAYERS

| Taxpayer | Type of Property | 2024/25 Net Tax Capacity | Percent of City's Total Net Tax Capacity |
|--------------------------------|------------------|--------------------------|--|
| Seneca Foods Corporation | Industrial | \$139,820 | 3.62% |
| Minnesota Valley Electric Coop | Utility | 66,243 | 1.72% |
| Union Pacific Railroad Co. | Railroad | 44,796 | 1.16% |
| Centerpoint Energy Minnegasco | Utility | 41,962 | 1.09% |
| United Steel Products Co. | Industrial | 38,998 | 1.01% |
| ITC Midwest LLC | Utility | 27,084 | 0.70% |
| Traditions of Montgomery LLC | Apartments | 26,961 | 0.70% |
| Frandsen Bank & Trust | Commercial | 23,548 | 0.61% |
| McKush Golf LLC | Commercial | 22,494 | 0.58% |
| Westerman Properties | Apartments | 22,212 | 0.58% |
| Total | | \$454,118 | 11.76% |

City's Total 2024/25 Net Tax Capacity \$3,860,496

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Largest Taxpayers have been furnished by Le Sueur County.

¹ Net Tax Capacity includes tax increment values.

² Taxable Net Tax Capacity does not include tax increment values.

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedules following)

| | |
|--|---------------------|
| Total G.O. debt secured by special assessments and taxes (includes the Improvement Portion of the Bonds)* | \$13,410,000 |
| Total G.O. debt secured by taxes (includes the Equipment Certificates Portion of the Bonds)* | 1,078,040 |
| Total G.O. debt secured by utility revenues (includes the Utility Revenue Portion of the Bonds)* | 4,890,000 |
| Total General Obligation Debt* | <u>\$19,378,040</u> |

*Preliminary, subject to change.

Lease Purchase Obligations (see schedule following)

| | |
|---|--------------------|
| Total lease purchase obligations paid by annual appropriations ² | <u>\$2,429,000</u> |
|---|--------------------|

DEBT PAYMENT HISTORY

The City has no record of default in the payment of principal and interest on its debt.

FUTURE FINANCING

The City has no current plans for additional financing in the next 12 months.

¹ Outstanding debt is as of the dated date of the Bonds.

² Non-general obligation debt has not been included in the debt ratios.

DEBT LIMIT

The statutory limit on net debt of Minnesota municipalities other than school districts or cities of the first class (Minnesota Statutes, Section 475.53, subd. 1) is 3% of the Assessor's Estimated Market Value of all taxable property within its boundaries. "Net debt" means the amount remaining after deducting from gross debt the amount of current revenues which are applicable within the current fiscal year to the payment of any debt and the aggregate principal of certain obligations enumerated under Minnesota Statutes, Section 475.51, subd.4, including the following: (1) obligations issued for improvements payable wholly or partly from special assessments levied against benefitted property (includes the Improvement Portion of the Bonds); (2) warrants or orders having no definite or fixed maturity; (3) obligations payable wholly from the income of revenue producing conveniences (includes the Utility Revenue Portion of the Bonds); (4) obligations issued to create or maintain a permanent improvement revolving fund; (5) obligations issued to finance any revenue producing public convenience; (6) funds held as sinking funds for payment of principal and interest on debt other than those deductible under Minnesota Statutes, Section 475.51, subd. 4; (7) obligations to repay energy conservation investment loans under Minnesota Statutes, Section 216C.37; (8) obligations issued to pay certain postemployment benefit liabilities; (9) obligations issued to pay certain judgments against the City; and (10) all other obligations which are not to be included in computing the net debt of a municipality under the provisions of the law authorizing their issuance.

| | |
|--|---------------------------|
| 2024/25 Assessor's Estimated Market Value | \$380,545,100 |
| Multiply by 3% | <u>0.03</u> |
| Statutory Debt Limit | \$11,416,353 |
| Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Equipment Certificates Portion of the Bonds)* | (1,078,040) |
| Less: Long-Term Debt Outstanding Being Paid Solely from Annual Appropriations | <u>(2,490,000)</u> |
| Unused Debt Limit* | <u><u>\$7,848,313</u></u> |

*Preliminary, subject to change.

City of Montgomery, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Special Assessments and Taxes
(As of 06/05/2025)

| | Improvement Bonds Series 2015A | | Improvement Bonds 1) Series 2021A | | Improvement Bonds 2) Series 2023A | | Improvement Bonds 3) Series 2025A | | | | | | | | |
|-------------------------|-----------------------------------|----------|--------------------------------------|----------|--------------------------------------|-----------|--------------------------------------|-----------------------|-----------------|----------------|-------------|--------------------------|---------|----------------------------|--|
| Dated Amount | 05/14/2015 \$2,205,000 | | 04/08/2021 \$3,980,000 | | 05/18/2023 \$4,750,000 | | 06/05/2025 \$4,655,000* | | | | | | | | |
| Maturity | 02/01 | | 02/01 | | 02/01 | | 02/01 | | | | | | | | |
| | | | | | | | | | | | | | | | |
| Calendar Year Ending | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Estimated Interest | Total Principal | Total Interest | Total P & I | Principal Outstanding | % Paid | Calendar Year Ending | |
| 2025 | 0 | 14,325 | 0 | 27,061 | 0 | 78,250 | 0 | 0 | 0 | 119,636 | 119,636 | 13,410,000 | .00% | 2025 | |
| 2026 | 150,000 | 26,400 | 245,000 | 51,673 | 255,000 | 151,400 | 0 | 219,735 | 650,000 | 449,207 | 1,099,207 | 12,760,000 | 4.85% | 2026 | |
| 2027 | 155,000 | 21,825 | 250,000 | 46,723 | 260,000 | 141,100 | 235,000 | 185,984 | 900,000 | 395,631 | 1,295,631 | 11,860,000 | 11.56% | 2027 | |
| 2028 | 155,000 | 17,175 | 255,000 | 41,673 | 270,000 | 130,500 | 245,000 | 177,464 | 925,000 | 366,811 | 1,291,811 | 10,935,000 | 18.46% | 2028 | |
| 2029 | 170,000 | 12,300 | 265,000 | 36,473 | 285,000 | 119,400 | 255,000 | 168,525 | 975,000 | 336,698 | 1,311,698 | 9,960,000 | 25.73% | 2029 | |
| 2030 | 170,000 | 7,413 | 270,000 | 31,123 | 295,000 | 107,800 | 260,000 | 159,125 | 995,000 | 305,460 | 1,300,460 | 8,965,000 | 33.15% | 2030 | |
| 2031 | 175,000 | 2,538 | 275,000 | 26,773 | 310,000 | 97,250 | 270,000 | 149,253 | 1,030,000 | 275,813 | 1,305,813 | 7,935,000 | 40.83% | 2031 | |
| 2032 | | | 275,000 | 23,335 | 315,000 | 87,875 | 280,000 | 138,800 | 870,000 | 250,010 | 1,120,010 | 7,065,000 | 47.32% | 2032 | |
| 2033 | | | 275,000 | 19,623 | 330,000 | 78,200 | 290,000 | 127,755 | 895,000 | 225,578 | 1,120,578 | 6,170,000 | 53.99% | 2033 | |
| 2034 | | | 285,000 | 15,631 | 340,000 | 68,150 | 305,000 | 116,000 | 930,000 | 199,781 | 1,129,781 | 5,240,000 | 60.92% | 2034 | |
| 2035 | | | 290,000 | 11,390 | 345,000 | 57,659 | 315,000 | 103,443 | 950,000 | 172,492 | 1,122,492 | 4,290,000 | 68.01% | 2035 | |
| 2036 | | | 290,000 | 6,968 | 360,000 | 46,419 | 330,000 | 90,055 | 980,000 | 143,441 | 1,123,441 | 3,310,000 | 75.32% | 2036 | |
| 2037 | | | 295,000 | 2,360 | 370,000 | 34,094 | 340,000 | 75,815 | 1,005,000 | 112,269 | 1,117,269 | 2,305,000 | 82.81% | 2037 | |
| 2038 | | | | | 380,000 | 20,969 | 360,000 | 60,585 | 740,000 | 81,554 | 821,554 | 1,565,000 | 88.33% | 2038 | |
| 2039 | | | | | 395,000 | 7,159 | 375,000 | 44,321 | 770,000 | 51,481 | 821,481 | 795,000 | 94.07% | 2039 | |
| 2040 | | | | | | | 390,000 | 27,203 | 390,000 | 27,203 | 417,203 | 405,000 | 96.98% | 2040 | |
| 2041 | | | | | | | 405,000 | 9,214 | 405,000 | 9,214 | 414,214 | 0 | 100.00% | 2041 | |
| | 975,000 | 101,975 | 3,270,000 | 340,803 | 4,510,000 | 1,226,225 | 4,655,000 | 1,853,275 | 13,410,000 | 3,522,277 | 16,932,277 | | | | |

* Preliminary, subject to change.

- 1) This represents the \$3,980,000 Improvement portion of the \$4,810,000 General Obligation Bonds, Series 2021A.
- 2) This represents the \$4,750,000 Improvement portion of the \$6,500,000 General Obligation Bonds, Series 2023A.
- 3) This represents the \$4,655,000 Improvement Portion of the \$6,125,000 General Obligation Bonds, Series 2025A.

City of Montgomery, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Taxes
(As of 06/05/2025)

| Equipment Certificates 1) Series 2023A | | | Promissory Note | | Equipment Certificates 2) Series 2025A | | | | | | | |
|---|-------------------------|----------|-------------------------|----------|---|-----------------------|-----------------|----------------|-------------|--------------------------|---------|----------------------------|
| Dated Amount | 05/18/2023 \$105,000 | | 05/07/2025 \$263,040 | | 06/05/2025 \$730,000* | | | | | | | |
| Maturity | 02/01 | | 06/15 | | 02/01 | | | | | | | |
| | | | | | | | | | | | | |
| Calendar Year Ending | Principal | Interest | Principal | Interest | Principal | Estimated Interest | Total Principal | Total Interest | Total P & I | Principal Outstanding | % Paid | Calendar Year Ending |
| 2025 | 0 | 1,700 | 0 | 0 | 0 | 0 | 0 | 1,700 | 1,700 | 1,078,040 | .00% | 2025 |
| 2026 | 20,000 | 3,000 | 26,304 | 0 | 0 | 32,425 | 46,304 | 35,425 | 81,729 | 1,031,736 | 4.30% | 2026 |
| 2027 | 20,000 | 2,200 | 26,304 | 0 | 60,000 | 26,995 | 106,304 | 29,195 | 135,499 | 925,432 | 14.16% | 2027 |
| 2028 | 20,000 | 1,400 | 26,304 | 0 | 65,000 | 24,776 | 111,304 | 26,176 | 137,480 | 814,128 | 24.48% | 2028 |
| 2029 | 25,000 | 500 | 26,304 | 0 | 65,000 | 22,453 | 116,304 | 22,953 | 139,257 | 697,824 | 35.27% | 2029 |
| 2030 | | | 26,304 | 0 | 70,000 | 19,988 | 96,304 | 19,988 | 116,292 | 601,520 | 44.20% | 2030 |
| 2031 | | | 26,304 | 0 | 70,000 | 17,380 | 96,304 | 17,380 | 113,684 | 505,216 | 53.14% | 2031 |
| 2032 | | | 26,304 | 0 | 75,000 | 14,624 | 101,304 | 14,624 | 115,928 | 403,912 | 62.53% | 2032 |
| 2033 | | | 26,304 | 0 | 75,000 | 11,718 | 101,304 | 11,718 | 113,022 | 302,608 | 71.93% | 2033 |
| 2034 | | | 26,304 | 0 | 80,000 | 8,655 | 106,304 | 8,655 | 114,959 | 196,304 | 81.79% | 2034 |
| 2035 | | | 26,304 | 0 | 85,000 | 5,313 | 111,304 | 5,313 | 116,617 | 85,000 | 92.12% | 2035 |
| 2036 | | | | | 85,000 | 1,785 | 85,000 | 1,785 | 86,785 | 0 | 100.00% | 2036 |
| | 85,000 | 8,800 | 263,040 | 0 | 730,000 | 186,110 | 1,078,040 | 194,910 | 1,272,950 | | | |

* Preliminary, subject to change.

- 1) This represents the \$105,000 Equipment Certificates portion of the \$6,500,000 General Obligation Bonds, Series 2023A.
- 2) This represents the \$730,000 Equipment Certificates Portion of the \$6,125,000 General Obligation Bonds, Series 2025A.

City of Montgomery, Minnesota
Schedule of Bonded Indebtedness
General Obligation Debt Secured by Utility Revenues
(As of 06/05/2025)

| | Water and Sewer Revenue Refunding Bonds Series 2010A | | Sewer and Water Refunding Bonds Series 2016A | | Water and Sewer Revenue Refunding Bonds Series 2017A | | Utility Revenue Bonds 1) Series 2021A | | Utility Revenue Bonds 2) Series 2023A | |
|---------------------------------|--|-----------------|--|-----------------|--|-----------------|--|-----------------|--|-----------------|
| Dated | 07/28/2010 | | 12/15/2016 | | 11/08/2017 | | 04/08/2021 | | 05/18/2023 | |
| Amount | \$725,000 | | \$3,095,000 | | \$2,205,000 | | \$830,000 | | \$1,645,000 | |
| Maturity | 02/01 | | 02/01 | | 02/01 | | 02/01 | | 02/01 | |
| Calendar Year Ending | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2025 | 0 | 1,290 | 0 | 15,328 | 0 | 7,694 | 0 | 5,638 | 0 | 27,078 |
| 2026 | 60,000 | 1,290 | 275,000 | 27,047 | 235,000 | 13,038 | 50,000 | 10,775 | 90,000 | 52,356 |
| 2027 | | | 280,000 | 19,763 | 235,000 | 8,044 | 55,000 | 9,725 | 90,000 | 48,756 |
| 2028 | | | 290,000 | 12,100 | 240,000 | 2,700 | 55,000 | 8,625 | 95,000 | 45,056 |
| 2029 | | | 295,000 | 4,056 | | | 55,000 | 7,525 | 100,000 | 41,156 |
| 2030 | | | | | | | 55,000 | 6,425 | 100,000 | 37,156 |
| 2031 | | | | | | | 55,000 | 5,545 | 105,000 | 33,581 |
| 2032 | | | | | | | 55,000 | 4,858 | 110,000 | 30,356 |
| 2033 | | | | | | | 60,000 | 4,080 | 115,000 | 26,981 |
| 2034 | | | | | | | 60,000 | 3,225 | 115,000 | 23,531 |
| 2035 | | | | | | | 60,000 | 2,340 | 120,000 | 19,931 |
| 2036 | | | | | | | 60,000 | 1,425 | 125,000 | 16,025 |
| 2037 | | | | | | | 60,000 | 480 | 130,000 | 11,719 |
| 2038 | | | | | | | | | 130,000 | 7,169 |
| 2039 | | | | | | | | | 135,000 | 2,447 |
| 2040 | | | | | | | | | | |
| 2041 | | | | | | | | | | |
| | 60,000 | 2,580 | 1,140,000 | 78,294 | 710,000 | 31,475 | 680,000 | 70,665 | 1,560,000 | 423,300 |

1) This represents the \$830,000 Utility Revenue portion of the \$4,810,000 General Obligation Bonds, Series 2021A.

2) This represents the \$1,645,000 Utility Revenue portion of the \$6,500,000 General Obligation Bonds, Series 2023A.

--Continued on next page

City of Montgomery, Minnesota
Schedule of Bonded Indebtedness continued
General Obligation Debt Secured by Utility Revenues
(As of 06/05/2025)

| Utility Revenue Bonds 3) Series 2025A | | | | | | | | |
|--|------------|-----------------------|-----------------|----------------|-------------|--------------------------|---------|----------------------------|
| Dated | 06/05/2025 | | | | | | | |
| Amount | \$740,000* | | | | | | | |
| Maturity | 02/01 | | | | | | | |
| Calendar Year Ending | Principal | Estimated Interest | Total Principal | Total Interest | Total P & I | Principal Outstanding | % Paid | Calendar Year Ending |
| 2025 | 0 | 0 | 0 | 57,028 | 57,028 | 4,890,000 | .00% | 2025 |
| 2026 | 0 | 34,895 | 710,000 | 139,401 | 849,401 | 4,180,000 | 14.52% | 2026 |
| 2027 | 40,000 | 29,488 | 700,000 | 115,775 | 815,775 | 3,480,000 | 28.83% | 2027 |
| 2028 | 40,000 | 28,068 | 720,000 | 96,549 | 816,549 | 2,760,000 | 43.56% | 2028 |
| 2029 | 40,000 | 26,638 | 490,000 | 79,375 | 569,375 | 2,270,000 | 53.58% | 2029 |
| 2030 | 40,000 | 25,178 | 195,000 | 68,759 | 263,759 | 2,075,000 | 57.57% | 2030 |
| 2031 | 45,000 | 23,594 | 205,000 | 62,720 | 267,720 | 1,870,000 | 61.76% | 2031 |
| 2032 | 45,000 | 21,884 | 210,000 | 57,098 | 267,098 | 1,660,000 | 66.05% | 2032 |
| 2033 | 45,000 | 20,140 | 220,000 | 51,201 | 271,201 | 1,440,000 | 70.55% | 2033 |
| 2034 | 50,000 | 18,263 | 225,000 | 45,019 | 270,019 | 1,215,000 | 75.15% | 2034 |
| 2035 | 50,000 | 16,238 | 230,000 | 38,509 | 268,509 | 985,000 | 79.86% | 2035 |
| 2036 | 50,000 | 14,163 | 235,000 | 31,613 | 266,613 | 750,000 | 84.66% | 2036 |
| 2037 | 55,000 | 11,930 | 245,000 | 24,129 | 269,129 | 505,000 | 89.67% | 2037 |
| 2038 | 55,000 | 9,538 | 185,000 | 16,706 | 201,706 | 320,000 | 93.46% | 2038 |
| 2039 | 60,000 | 6,993 | 195,000 | 9,439 | 204,439 | 125,000 | 97.44% | 2039 |
| 2040 | 60,000 | 4,308 | 60,000 | 4,308 | 64,308 | 65,000 | 98.67% | 2040 |
| 2041 | 65,000 | 1,479 | 65,000 | 1,479 | 66,479 | 0 | 100.00% | 2041 |
| | 740,000 | 292,791 | 4,890,000 | 899,105 | 5,789,105 | | | |

* Preliminary, subject to change.

3) This represents the \$740,000 Utility Revenue Portion of the \$6,125,000 General Obligation Bonds, Series 2025A.

City of Montgomery, Minnesota
Schedule of Bonded Indebtedness
Non-General Obligation Debt Secured by Annual Appropriation
(As of 06/05/2025)

| Police Facility 2022 Lease | | | | | | | | |
|-------------------------------|---------------|----------|-----------------|----------------|-------------|--------------------------|---------|----------------------------|
| Dated | 08/11/2022 | | | | | | | |
| Amount | \$2,573,000 | | | | | | | |
| Maturity | 02/01 & 08/01 | | | | | | | |
| Calendar Year Ending | Principal | Interest | Total Principal | Total Interest | Total P & I | Principal Outstanding | % Paid | Calendar Year Ending |
| 2025 | 49,000 | 41,293 | 49,000 | 41,293 | 90,293 | 2,380,000 | 2.02% | 2025 |
| 2026 | 101,000 | 80,070 | 101,000 | 80,070 | 181,070 | 2,279,000 | 6.18% | 2026 |
| 2027 | 105,000 | 76,602 | 105,000 | 76,602 | 181,602 | 2,174,000 | 10.50% | 2027 |
| 2028 | 109,000 | 72,998 | 109,000 | 72,998 | 181,998 | 2,065,000 | 14.99% | 2028 |
| 2029 | 113,000 | 69,258 | 113,000 | 69,258 | 182,258 | 1,952,000 | 19.64% | 2029 |
| 2030 | 116,000 | 65,382 | 116,000 | 65,382 | 181,382 | 1,836,000 | 24.41% | 2030 |
| 2031 | 120,000 | 61,421 | 120,000 | 61,421 | 181,421 | 1,716,000 | 29.35% | 2031 |
| 2032 | 127,000 | 57,290 | 127,000 | 57,290 | 184,290 | 1,589,000 | 34.58% | 2032 |
| 2033 | 1,589,000 | 27,013 | 1,589,000 | 27,013 | 1,616,013 | 0 | 100.00% | 2033 |
| | 2,429,000 | 551,327 | 2,429,000 | 551,327 | 2,980,327 | | | |

OVERLAPPING DEBT¹

| Taxing District | 2024/25 Taxable Net Tax Capacity | % In City | Total G.O. Debt ² | City's Proportionate Share |
|--|--|--------------|---------------------------------|----------------------------------|
| Le Sueur County | \$60,836,965 | 6.2883% | \$32,679,810 | \$2,055,004 |
| I.S.D. No. 2905 (Tri-City United Public Schools) | 24,198,195 | 15.8096% | 38,493,093 ³ | <u>6,085,604</u> |
| City's Share of Total Overlapping Debt | | | | <u><u>\$8,140,609</u></u> |

DEBT RATIOS

| | G.O. Debt | Debt/Economic Market Value \$370,328,142 | Debt/ Per Capita 3,505 ⁴ |
|--|----------------------------|--|---|
| Direct G.O. Debt Secured By: | | | |
| Special Assessments & Taxes* | \$13,410,000 | | |
| Taxes* | 1,078,040 | | |
| Utility Revenues* | <u>4,890,000</u> | | |
| Total General Obligation Debt* | \$19,378,040 | | |
| Less: G.O. Debt Paid Entirely from Revenues ⁵ | <u>(4,890,000)</u> | | |
| Tax Supported General Obligation Debt* | \$14,488,040 | 3.91% | \$4,133.54 |
| City's Share of Total Overlapping Debt | <u>\$8,140,609</u> | <u>2.20%</u> | <u>\$2,322.57</u> |
| Total* | <u><u>\$22,628,649</u></u> | <u><u>6.11%</u></u> | <u><u>\$6,456.11</u></u> |

*Preliminary, subject to change.

¹ Overlapping debt is as of the dated date of the Bonds. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. It does **not** include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

² Outstanding debt is based on information in Official Statements obtained on EMMA and the Municipal Advisor's records.

³ Minnesota School Districts may qualify for aid from the State of Minnesota through the Debt Service Equalization Formula, School Building Bond Agricultural Credit and Long Term Facilities Maintenance Revenue programs. While some of the districts listed may receive these aids, Ehlers has not attempted to estimate the portion of debt service payments that would be financed by state aids for the purposes of the Bonds.

⁴ Estimated 2023 population.

⁵ Debt service on the City's general obligation revenue debt is being paid entirely from revenues and therefore is considered self-supporting debt.

TAX LEVIES, COLLECTIONS AND RATES

TAX LEVIES AND COLLECTIONS

| Tax Year | Net Tax Levy ¹ | Total Collected Following Year | Collected to Date | % Collected |
|----------|---------------------------|--------------------------------|-------------------|-------------|
| 2020/21 | \$1,683,073 | \$1,666,617 | \$1,682,359 | 99.96% |
| 2021/22 | 1,801,542 | 1,785,968 | 1,799,738 | 99.90% |
| 2022/23 | 2,170,432 | 2,151,106 | 2,164,162 | 99.71% |
| 2023/24 | 2,455,272 | 2,423,625 | 2,423,625 | 98.71% |
| 2024/25 | 3,061,754 | In process of collection | | |

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.² Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

TAX CAPACITY RATES³

| | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---------|---------|---------|---------|---------|
| Le Sueur County | 54.179% | 54.083% | 47.792% | 45.353% | 45.732% |
| City of Montgomery | 68.004% | 67.225% | 63.322% | 63.719% | 80.056% |
| I.S.D. No. 2905 (Tri-City United Public Schools) | 35.615% | 34.263% | 30.278% | 27.737% | 26.992% |
| Waseca-LeSueur Regional Library | 1.742% | 1.730% | 1.535% | 1.353% | 1.378% |

Referendum Market Value Rates:

| | | | | | |
|---|----------|----------|----------|----------|----------|
| I.S.D. No. 2905 (Tri-City United Public Schools) | 0.11751% | 0.11851% | 0.09707% | 0.09823% | 0.09789% |
|---|----------|----------|----------|----------|----------|

Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Le Sueur County.

¹ This reflects the Final Levy Certification of the City after all adjustments have been made.

² Second half tax payments on agricultural property are due on November 15th of each year.

³ After reduction for state aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

THE ISSUER

CITY GOVERNMENT

The City was organized as a municipality in 1902. The City operates under a statutory form of government consisting of a five-member City Council of which the Mayor is a voting member. The City Administrator and Clerk-Treasurer are responsible for administrative details and financial records.

EMPLOYEES; PENSIONS; UNIONS

The City currently has 21 full-time, four (4) part-time, and four (4) seasonal employees. All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing multiple-employer retirement plans. PERA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security. See the Notes to Financial Statements in Appendix A for a detailed description of the Plans.

Recognized and Certified Bargaining Units

| Bargaining Unit | Expiration Date of Current Contract |
|----------------------|-------------------------------------|
| Police- LELS | December 31, 2027 |
| Public Works- AFSCME | December 31, 2027 |

POST EMPLOYMENT BENEFITS

The City does not have any other post employment benefit obligations.

LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the City or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

As of the date hereof, Minnesota Statutes, Section 471.831, authorizes municipalities to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code. A municipality is defined in United States Code, title 11, section 101, as amended through December 31, 1996, but limited to a county, statutory or home rule charter city, or town; or a housing and redevelopment authority, economic development authority, or rural development financing authority established under Chapter 469, a home rule charter or special law.

FUNDS ON HAND (as of February 28, 2025)

| Fund | Total Cash and Investments |
|---------------------|---------------------------------------|
| General | \$1,366,297 |
| Special Revenue | 258,884 |
| Debt Service | 117,715 |
| Capital Projects | 641,944 |
| Enterprise Funds | 903,806 |
| | <hr/> |
| Total Funds on Hand | <u><u>\$3,288,646</u></u> |

ENTERPRISE FUNDS

Revenues available for debt service on the City's enterprise funds have been as follows as of December 31 each year:

| | 2022 Audited | 2023 Audited | 2024 Audited |
|-------------------------------------|-------------------------|-----------------------------|-------------------------|
| Water | | | |
| Total Operating Revenues | \$1,065,016 | \$1,092,281 | \$1,083,179 |
| Less: Operating Expenses | <u>(666,784)</u> | <u>(8,363,351)</u> | <u>(787,083)</u> |
| Operating Income | \$398,232 | (\$7,271,070) | \$296,096 |
| Plus: Depreciation | <u>258,424</u> | <u>298,878</u> | <u>300,547</u> |
| Revenues Available for Debt Service | <u><u>\$656,656</u></u> | <u><u>(\$6,972,192)</u></u> | <u><u>\$596,643</u></u> |
| Sewer | | | |
| Total Operating Revenues | \$1,031,524 | \$1,043,428 | \$1,022,844 |
| Less: Operating Expenses | <u>(860,455)</u> | <u>(1,009,173)</u> | <u>(963,510)</u> |
| Operating Income | \$171,069 | \$34,255 | \$59,334 |
| Plus: Depreciation | <u>328,199</u> | <u>341,038</u> | <u>346,105</u> |
| Revenues Available for Debt Service | <u><u>\$499,268</u></u> | <u><u>\$375,293</u></u> | <u><u>\$405,439</u></u> |
| Storm Water | | | |
| Total Operating Revenues | \$232,700 | \$257,504 | \$268,956 |
| Less: Operating Expenses | <u>(246,071)</u> | <u>(249,780)</u> | <u>(304,260)</u> |
| Operating Income | (\$13,371) | \$7,724 | (\$35,304) |
| Plus: Depreciation | <u>40,145</u> | <u>58,904</u> | <u>60,573</u> |
| Revenues Available for Debt Service | <u><u>\$26,774</u></u> | <u><u>\$66,628</u></u> | <u><u>\$25,269</u></u> |

SUMMARY GENERAL FUND INFORMATION

The following are summaries of the revenues, expenditures and fund balances for the City's General Fund. These summaries are not purported to be the complete audited financial statements of the City, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the City. Copies of the complete statements are available upon request. Appendix A includes the 2024 audited financial statements.

| COMBINED STATEMENT | FISCAL YEAR ENDING DECEMBER 31 | | | | 2025 Adopted Budget ¹ |
|---|--------------------------------|--------------------|--------------------|--------------------|--|
| | 2021 Audited | 2022 Audited | 2023 Audited | 2024 Audited | |
| Revenues | | | | | |
| Taxes | \$1,497,770 | \$1,676,162 | \$1,802,793 | \$2,049,795 | \$2,298,508 |
| Licenses and permits | 174,847 | 118,418 | 106,623 | 70,515 | 97,350 |
| Intergovernmental | 1,004,866 | 1,020,734 | 1,054,514 | 1,174,254 | 1,216,347 |
| Charges for services | 98,702 | 96,571 | 88,346 | 55,099 | 56,700 |
| Fines and forfeitures | 25,638 | 20,528 | 21,743 | 19,662 | 29,300 |
| Investment earnings | 2,011 | 1,023 | 4,934 | 17,083 | 2,500 |
| Miscellaneous | 63,568 | 40,810 | 26,414 | 69,391 | 7,850 |
| Total Revenues | \$2,867,402 | \$2,974,246 | \$3,105,367 | \$3,455,799 | \$3,708,555 |
| Expenditures | | | | | |
| Current: | | | | | |
| General government | \$563,606 | \$601,092 | \$674,148 | \$671,175 | \$737,861 |
| Public safety | 1,229,802 | 1,343,229 | 1,490,461 | 1,488,317 | 1,745,479 |
| Streets and highways | 420,694 | 464,187 | 510,587 | 483,727 | 574,651 |
| Culture and recreation | 134,981 | 178,742 | 186,024 | 212,557 | 226,377 |
| Economic development | 9,701 | 12,753 | 10,436 | 12,882 | 0 |
| Miscellaneous | 90,816 | 80,422 | 90,420 | 100,814 | 144,187 |
| Capital outlay | 31,728 | 69,983 | 48,682 | 79,106 | 0 |
| Debt service | 5,000 | 5,000 | 5,000 | 5,000 | 0 |
| Total Expenditures | \$2,486,328 | \$2,755,408 | \$3,015,758 | \$3,053,578 | \$3,428,555 |
| Excess of revenues over (under) expenditures | \$381,074 | \$218,838 | \$89,609 | \$402,221 | \$280,000 |
| Other Financing Sources (Uses) | | | | | |
| Sale of capital assets | \$0 | \$0 | \$386 | \$0 | \$0 |
| Transfers (out) | (436,000) | (345,000) | 0 | (310,000) | (280,000) |
| Total Other Financing Sources (Uses) | (436,000) | (345,000) | 386 | (310,000) | (280,000) |
| Net changes in Fund Balances | (\$54,926) | (\$126,162) | \$89,995 | \$92,221 | \$0 |
| General Fund Balance January 1 | \$894,615 | \$839,689 | \$713,527 | \$803,522 | |
| Prior Period Adjustment | 0 | 0 | 0 | 0 | |
| Residual Equity Transfer in (out) | 0 | 0 | 0 | 0 | |
| General Fund Balance December 31 | \$839,689 | \$713,527 | \$803,522 | \$895,743 | |
| DETAILS OF DECEMBER 31 FUND BALANCE | | | | | |
| Nonspendable | \$55,635 | \$70,223 | \$71,283 | \$54,164 | |
| Unassigned | 784,054 | 643,304 | 732,239 | 841,579 | |
| Total | \$839,689 | \$713,527 | \$803,522 | \$895,743 | |

¹ The 2025 budget was adopted on December 2, 2024.

GENERAL INFORMATION

LOCATION

The City, with a 2020 U.S. Census population of 3,249 and a 2023 population estimate of 3,505, and comprising an area of 2.62 square miles, is located approximately 60 miles southwest of St. Paul, Minnesota.

LARGER EMPLOYERS¹

Larger employers in the City include the following:

| Firm | Type of Business/Product | Estimated No. of Employees |
|---|------------------------------------|-----------------------------------|
| I.S.D. No. 2905 (Tri-City United Public Schools) | Elementary and secondary education | 320 |
| Seneca Foods Corporation | Food manufacturers | 130 |
| Palmer Bus | Transportation | 63 |
| The City | Municipal government and services | 29 |
| Montgomery Golf Club | Golf courses | 24 |
| Most Holy Redeemer School | Religious-private school | 23 |
| Mayo Clinic Health Systems | Clinics | 11 |
| Frandsen Bank & Trust | Banks | 10 |
| Subway | Restaurants | 10 |
| Boat Doctor Marine | Towing- marine and boat storage | 10 |

Source: Data Axle Reference Solutions, written and telephone survey, and the Minnesota Department of Employment and Economic Development.

¹ This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above.

BUILDING PERMITS (as of April 10, 2025)

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|--|--------------|-------------|-------------|-------------|-----------|
| <u>New Single Family Homes</u> | | | | | |
| No. of building permits | 37 | 15 | 10 | 7 | 3 |
| Valuation | \$6,904,000 | \$3,653,000 | \$2,260,600 | \$1,819,531 | \$710,000 |
| <u>New Multiple Family Buildings</u> | | | | | |
| No. of building permits | 0 | 0 | 1 | 0 | 0 |
| Valuation | \$0 | \$0 | \$684,000 | \$0 | \$0 |
| <u>New Commercial/Industrial</u> | | | | | |
| No. of building permits | 3 | 3 | 1 | 1 | 0 |
| Valuation | \$4,042,000 | \$2,903,000 | \$300,000 | \$300,000 | \$0 |
| <u>All Building Permits</u> (including additions and remodelings) | | | | | |
| No. of building permits | 190 | 176 | 149 | 115 | 26 |
| Valuation | \$12,338,000 | \$8,054,000 | \$6,580,000 | \$2,470,000 | \$964,077 |

Source: The City.**U.S. CENSUS DATA****Population Trend:** The City

| | |
|--|-------|
| 2010 U.S. Census population | 2,956 |
| 2020 U.S. Census population | 3,249 |
| Percent of Change 2010 - 2020 | 9.91% |
| 2023 State Demographer Population Estimate | 3,505 |

Income and Age Statistics

| | The City | Le Sueur County | State of Minnesota | United States |
|--|-----------|-----------------|--------------------|---------------|
| 2023 per capita income | \$36,504 | \$43,236 | \$46,957 | \$43,289 |
| 2023 median household income | \$74,018 | \$90,218 | \$87,556 | \$78,538 |
| 2023 median family income | \$89,583 | \$108,147 | \$111,492 | \$96,922 |
| 2023 median gross rent | \$896 | \$885 | \$1,235 | \$1,348 |
| 2023 median value owner occupied units | \$218,900 | \$287,700 | \$305,500 | \$303,400 |
| 2023 median age | 39.1 yrs. | 41.4 yrs. | 38.6 yrs. | 38.7 yrs. |

| | State of Minnesota | United States |
|-------------------------------------|--------------------|---------------|
| City % of 2023 per capita income | 77.74% | 84.33% |
| City % of 2023 median family income | 80.35% | 92.43% |

Housing Statistics

| | <u>The City</u> | | Percent of Change |
|-------------------|-----------------|-------|-------------------|
| | 2020 | 2023 | |
| All Housing Units | 1,350 | 1,463 | 8.37% |

Source: 2010 and 2020 Census of Population and Housing, and 2023 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (<https://data.census.gov>), and Minnesota State Demographer (<https://mn.gov/admin/demography/data-by-topic/population-data/our-estimates/>).

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

| Year | <u>Average Employment</u> | <u>Average Unemployment</u> | |
|-------------|---------------------------|-----------------------------|--------------------|
| | Le Sueur County | Le Sueur County | State of Minnesota |
| 2021 | 15,046 | 4.4% | 3.7% |
| 2022 | 15,515 | 3.3% | 2.5% |
| 2023 | 15,666 | 3.9% | 2.8% |
| 2024 | 15,795 | 4.1% | 3.0% |
| 2025, March | 15,703 | 6.6% | 3.9% |

Source: Minnesota Department of Employment and Economic Development.

FINANCIAL STATEMENTS

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the City's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The City has not requested or engaged the Auditor to perform, and the Auditor has not performed, any additional examination, assessments, procedures or evaluation with respect to such financial statements since the date thereof or with respect to this Preliminary Official Statement, nor has the City requested that the Auditor consent to the use of such financial statements in this Preliminary Official Statement. Although the inclusion of the financial statements in this Preliminary Official Statement is not intended to demonstrate the fiscal condition of the City since the date of the financial statements, in connection with the issuance of the Bonds, the City represents that there have been no material adverse change in the financial position or results of operations of the City, nor has the City incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.

ANNUAL FINANCIAL REPORT

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

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INTRODUCTORY SECTION

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

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City of Montgomery, Minnesota
Elected and Appointed Officials
For the Year Ended December 31, 2024

ELECTED

| Name | Title | Term Expires |
|--------------------|---------|--------------|
| Thomas Eisert | Mayor | 12/31/2024 |
| Mick McGuire | Council | 12/31/2026 |
| Zack Matson | Council | 12/31/2026 |
| Brad "Butch" Kubes | Council | 12/31/2024 |
| Bob Forcelle | Council | 12/31/2024 |

APPOINTED

| | |
|-----------------|--------------------|
| Brian Heck | City Administrator |
| Patricia Soukup | Clerk/Treasurer |

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FINANCIAL SECTION

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Montgomery, Minnesota

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Montgomery, Minnesota (the City), as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City as of December 31, 2024, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the Schedules of Employer's Share of the Net Pension Liability and the Schedules of Employer's Contributions, the related note disclosures, and the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios, starting on page 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Supplementary Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Change in Accounting Principle

As described in Note 8 to the financial statements, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 100, Accounting Changes and Error Corrections and Statement No. 101, Compensated Absences, for the year ended December 31, 2024. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements. Our opinion is not modified with respect to this matter.

Other Information

Management is responsible for the other information in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statement do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2025 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Abdo
Mankato, Minnesota
March 18, 2025



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Management's Discussion and Analysis

As management of the City of Montgomery, Minnesota, (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2024.

Financial Highlights

- The assets and deferred outflows or resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year as shown in the summary of net position on the following pages. The unrestricted amount of net position may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased as shown in the summary of changes in net assets table on the following pages. The current year increase is largely attributable to an increase in property taxes/tax increments and operating grants & contributions related to public safety and culture & recreation programs.
- For the current fiscal year, the City's governmental funds fund balances are shown in the Financial Analysis of the City's Funds section of the MD&A. The total fund balance decreased in comparison with the prior year. This decrease was mainly due to 2023 street improvement project costs, equipment purchases and debt payments. The total of assigned and unassigned as shown in the governmental fund balance table is available for spending at the City's discretion.
- Unassigned fund balance in the General fund as shown in the financial analysis of the City's funds section increased from prior year.
- The City's total bonded debt decreased during the fiscal year. The decrease was a result of schedule debt service payments and the retirement of the G.O. Refunding Bonds of 2012A.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City’s basic financial statements. The City’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 reflects how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

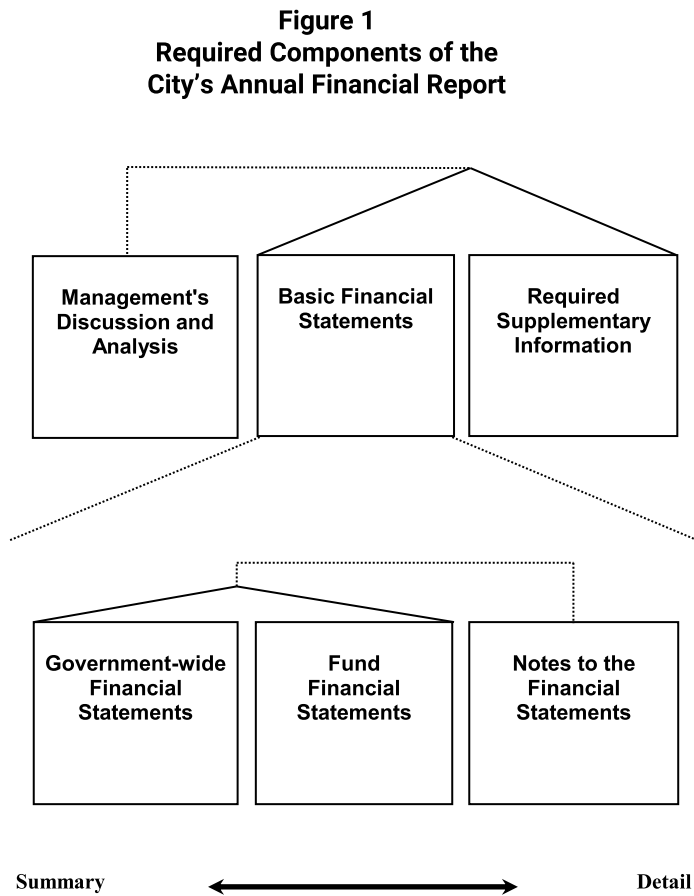


Figure 2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure 2
Major Features of the Government-wide and Fund Financial Statements

| | Government-wide Statements | Fund Financial Statements | |
|--|--|--|---|
| | | Governmental Funds | Proprietary Funds |
| Scope | Entire City government (except fiduciary funds) and the City's component units | The activities of the City that are not proprietary or fiduciary, such as police, fire and parks | Activities the City operates similar to private businesses, such as the water and sewer system |
| Required financial statements | <ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities | <ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances | <ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • Statement of Cash Flows |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, and short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term |
| Type of deferred outflows/inflows of resources information | All deferred outflows/inflows of resources, regardless of when cash is received or paid. | Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included | All deferred outflows/inflows of resources, regardless of when cash is received or paid |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid |

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets and highway, culture and recreation, economic development, miscellaneous and interest on long-term debt. The business-type activities of the City include water utility, sewer utility and storm water utility.

The government-wide financial statements can be found starting on page 33 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains several individual governmental funds, which includes multiple Debt Service funds, which are considered one fund for reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund and the Debt Service fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements or schedules* elsewhere in this report.

The City adopts an annual appropriated budget for its General and Ambulance funds. A budgetary comparison statement has been provided for the General fund and Ambulance fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found starting on page 38 of this report.

Proprietary Funds. The City maintains one type of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and storm water operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for each of the enterprise funds which are considered to be major funds of the City.

The basic proprietary funds financial statements can be found starting on page 43 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 47 of this report.

Required Supplementary Information. This report presents certain required supplementary information concerning the City's share of net pension liabilities (assets) for defined benefits plans and schedules of contributions starting on page 82 of this report. The City has disclosed this information in Notes 4 and 5 to the financial statements and as separate required supplementary information.

Supplementary Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to financial statements. Combining and individual fund statements and schedules can be found starting on page 90 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows or resources exceeded liabilities and deferred inflows of resources at the close of the most recent fiscal year, as shown in the table below.

By far, the largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and motor vehicles), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Montgomery's Summary of Net Position

| | Governmental Activities | | | Business-type Activities | | |
|--------------------------------|-------------------------|---------------------|------------------------|--------------------------|----------------------|------------------------|
| | 2024 | (Restated) 2023 | Increase (Decrease) | 2024 | 2023 | Increase (Decrease) |
| Assets | | | | | | |
| Current and | | | | | | |
| Other Assets | \$ 4,501,946 | \$ 5,792,179 | \$ (1,290,233) | \$ 1,013,801 | \$ 1,421,872 | \$ (408,071) |
| Capital Assets | 13,396,006 | 14,443,615 | (1,047,609) | 18,341,580 | 17,002,068 | 1,339,512 |
| Total Assets | <u>17,897,952</u> | <u>20,235,794</u> | <u>(2,337,842)</u> | <u>19,355,381</u> | <u>18,423,940</u> | <u>931,441</u> |
| Deferred Outflows of Resources | <u>1,120,813</u> | <u>1,536,028</u> | <u>(415,215)</u> | <u>52,056</u> | <u>78,332</u> | <u>(26,276)</u> |
| Liabilities | | | | | | |
| Noncurrent Liabilities | 11,914,519 | 13,068,139 | (1,153,620) | 6,530,105 | 7,451,935 | (921,830) |
| Other Liabilities | 586,745 | 509,404 | 77,341 | 158,528 | 228,831 | (70,303) |
| Total Liabilities | <u>12,501,264</u> | <u>13,577,543</u> | <u>(1,076,279)</u> | <u>6,688,633</u> | <u>7,680,766</u> | <u>(992,133)</u> |
| Deferred Inflows of Resources | <u>1,394,603</u> | <u>1,403,048</u> | <u>(8,445)</u> | <u>339,648</u> | <u>328,799</u> | <u>10,849</u> |
| Net Position | | | | | | |
| Net Investment In | | | | | | |
| Capital Assets | 2,607,416 | 3,464,000 | (856,584) | 12,191,984 | 10,118,901 | 2,073,083 |
| Restricted | | | | | | |
| Debt Service | 1,908,823 | 2,727,075 | (818,252) | - | - | - |
| Economic Development | 33,376 | 13,453 | 19,923 | - | - | - |
| Fire Equipment | 596,561 | 413,361 | 183,200 | - | - | - |
| Park Dedication | - | 81,000 | (81,000) | - | - | - |
| Street Improvements | 75,000 | 151,215 | (76,215) | - | - | - |
| Facility Improvements | 126,227 | 171,083 | (44,856) | - | - | - |
| Equipment Replacement | - | 373,361 | (373,361) | - | - | - |
| Tax Increment Financing | 7,877 | 5,749 | 2,128 | - | - | - |
| Police Operations | 2,899 | 3,369 | (470) | - | - | - |
| Crime Prevention | 4,384 | 4,148 | 236 | - | - | - |
| Pension asset | 30,880 | - | 30,880 | - | - | - |
| Public Safety Aid | 59,589 | 147,735 | (88,146) | - | - | - |
| Unrestricted | <u>(330,134)</u> | <u>(764,318)</u> | <u>434,184</u> | <u>187,172</u> | <u>373,806</u> | <u>(186,634)</u> |
| Total Net Position | <u>\$ 5,122,898</u> | <u>\$ 6,791,231</u> | <u>\$ (1,668,333)</u> | <u>\$ 12,379,156</u> | <u>\$ 10,492,707</u> | <u>\$ 1,886,449</u> |

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The *unrestricted net position* represents funds that may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in the net investment in capital assets and restricted categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities.

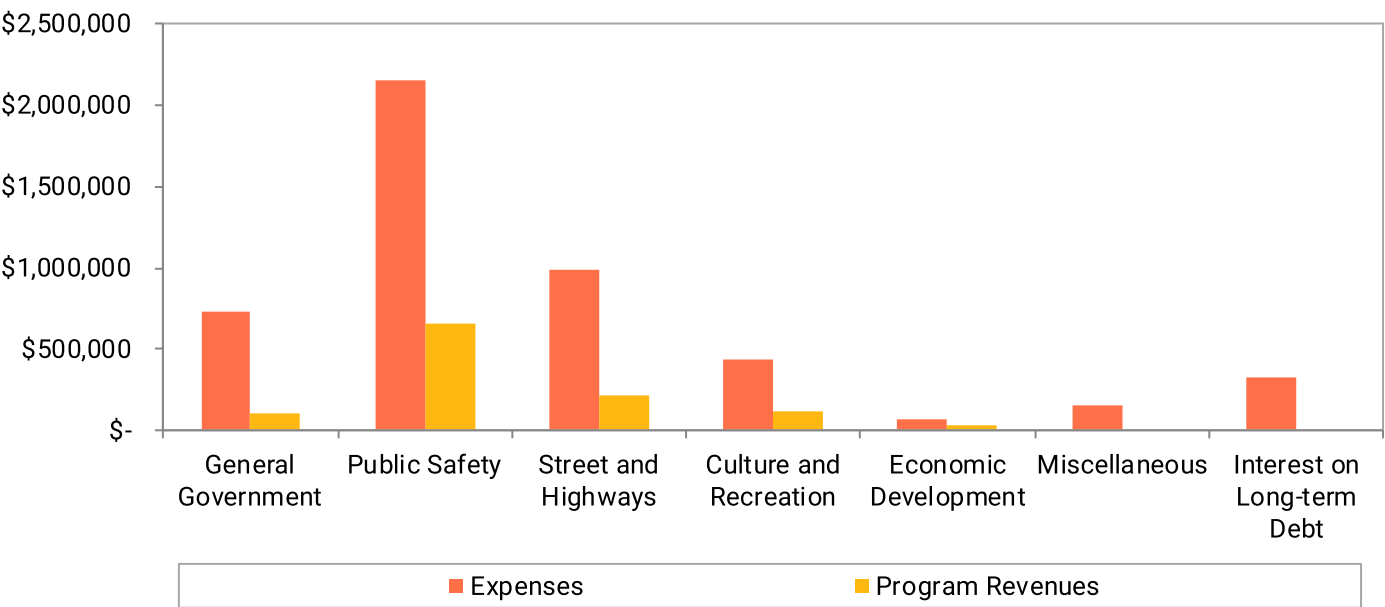
Governmental Activities. Governmental activities decreased the City's overall net position, as shown below. The decrease is due to a decrease in capital grants & contributions, grants not related to specific programs and decreased investment earnings. Key elements of this decrease are as follows:

City of Montgomery's Changes in Net Position

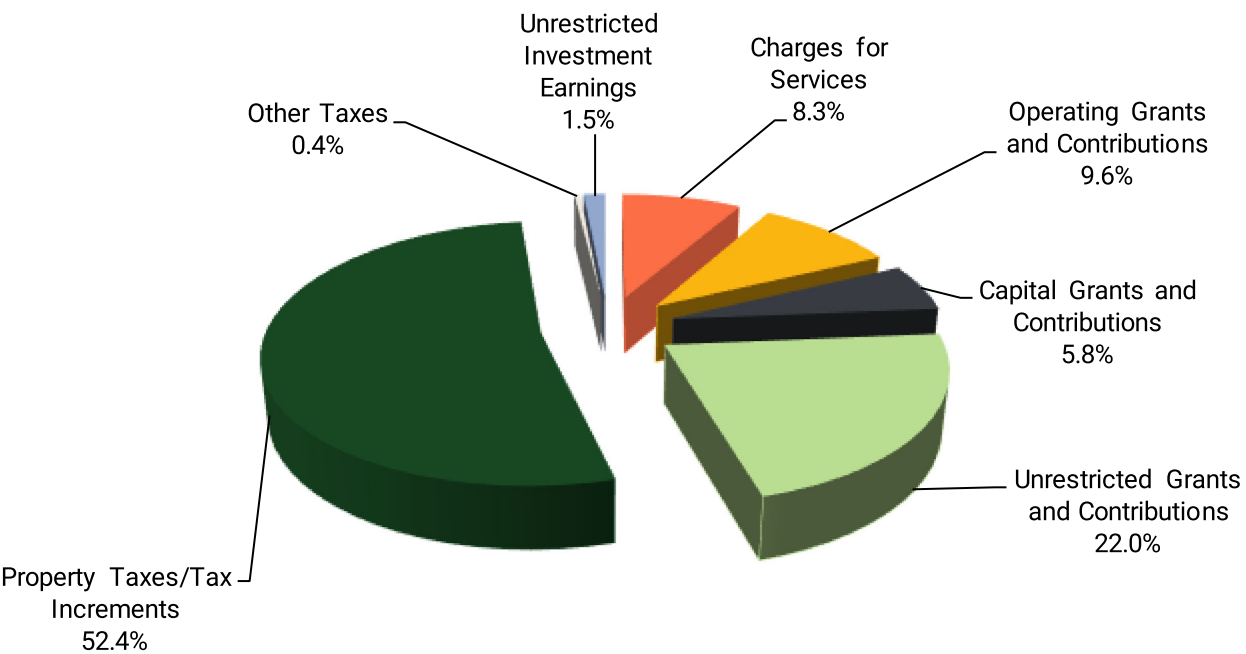
| | Governmental Activities | | | Business-type Activities | | |
|--|-------------------------|---------------------|------------------------|--------------------------|----------------------|------------------------|
| | 2024 | 2023 | Increase (Decrease) | 2024 | 2023 | Increase (Decrease) |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 392,814 | \$ 683,471 | \$ (290,657) | \$ 2,362,026 | \$ 2,384,762 | \$ (22,736) |
| Operating grants and contributions | 457,934 | 154,004 | 303,930 | 7,147 | 955 | 6,192 |
| Capital grants and contributions | 272,965 | 1,209,330 | (936,365) | 43,769 | 81,280 | (37,511) |
| General revenues | | | | | | |
| Property taxes/tax increments | 2,495,767 | 2,200,018 | 295,749 | - | - | - |
| Other taxes | 19,098 | 20,848 | (1,750) | - | - | - |
| Grants and contributions not restricted to specific programs | 1,051,223 | 1,101,145 | (49,922) | - | - | - |
| Unrestricted investment earnings | 72,366 | 106,384 | (34,018) | 23,358 | 7,885 | 15,473 |
| Gain on sale of assets | 51,797 | 33,978 | 17,819 | - | 1,015 | (1,015) |
| Other revenues | 628 | - | 628 | - | - | - |
| Total Revenues | <u>4,814,592</u> | <u>5,509,178</u> | <u>(694,586)</u> | <u>2,436,300</u> | <u>2,475,897</u> | <u>(39,597)</u> |
| Expenses | | | | | | |
| General government | 729,682 | 750,086 | (20,404) | - | - | - |
| Public safety | 2,159,611 | 2,409,026 | (249,415) | - | - | - |
| Streets and highways | 985,437 | 1,189,773 | (204,336) | - | - | - |
| Culture and recreation | 432,384 | 321,562 | 110,822 | - | - | - |
| Economic development | 62,708 | 48,951 | 13,757 | - | - | - |
| Miscellaneous | 151,898 | 146,247 | 5,651 | - | - | - |
| Interest and other costs | 321,366 | 407,355 | (85,989) | - | - | - |
| Water utility | - | - | - | 864,830 | 909,203 | (44,373) |
| Sewer utility | - | - | - | 1,010,111 | 1,035,974 | (25,863) |
| Storm water utility | - | - | - | 314,749 | 340,420 | (25,671) |
| Total Expenses | <u>4,843,086</u> | <u>5,273,000</u> | <u>(429,914)</u> | <u>2,189,690</u> | <u>2,285,597</u> | <u>(95,907)</u> |
| Increase (Decrease) in Net Position Before Transfers | (28,494) | 236,178 | (264,672) | 246,610 | 190,300 | 56,310 |
| Transfers | <u>(1,639,839)</u> | <u>(106,222)</u> | <u>(1,533,617)</u> | <u>1,639,839</u> | <u>106,222</u> | <u>1,533,617</u> |
| Changes in Net Position | (1,668,333) | 129,956 | (1,798,289) | 1,886,449 | 296,522 | 1,589,927 |
| Net Position - January 1 | <u>6,791,231</u> | <u>6,661,275</u> | <u>129,956</u> | <u>10,492,707</u> | <u>10,196,185</u> | <u>296,522</u> |
| Net Position - December 31 | <u>\$ 5,122,898</u> | <u>\$ 6,791,231</u> | <u>\$ (1,668,333)</u> | <u>\$ 12,379,156</u> | <u>\$ 10,492,707</u> | <u>\$ 1,886,449</u> |

The following graphs depict various governmental activities and show the revenue and expenses directly related to those activities.

Expenses and Program Revenues - Governmental Activities



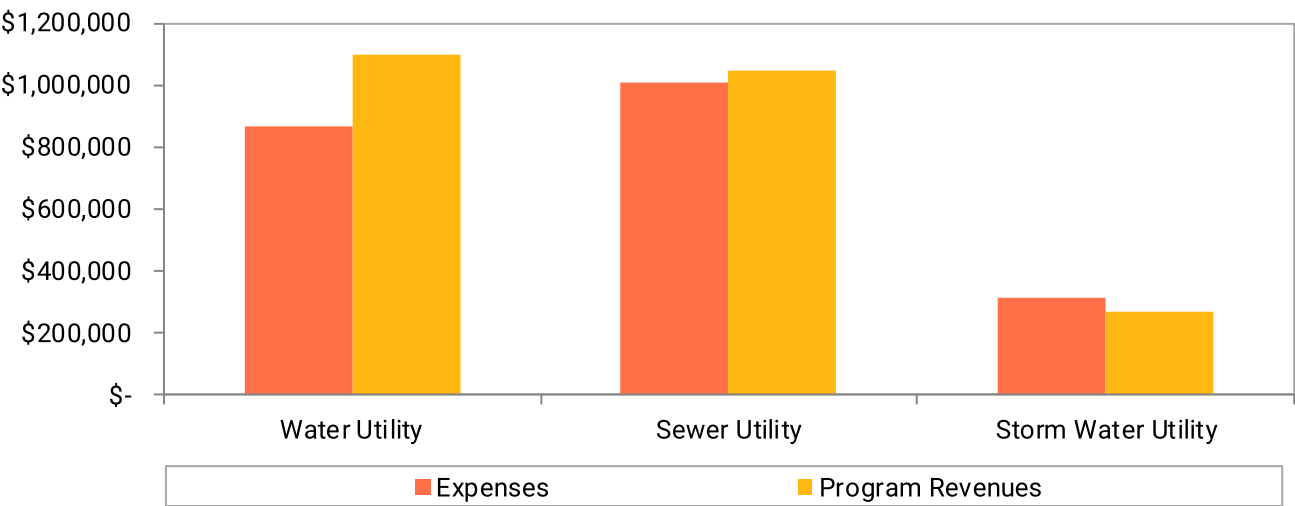
Revenues by Source - Governmental Activities



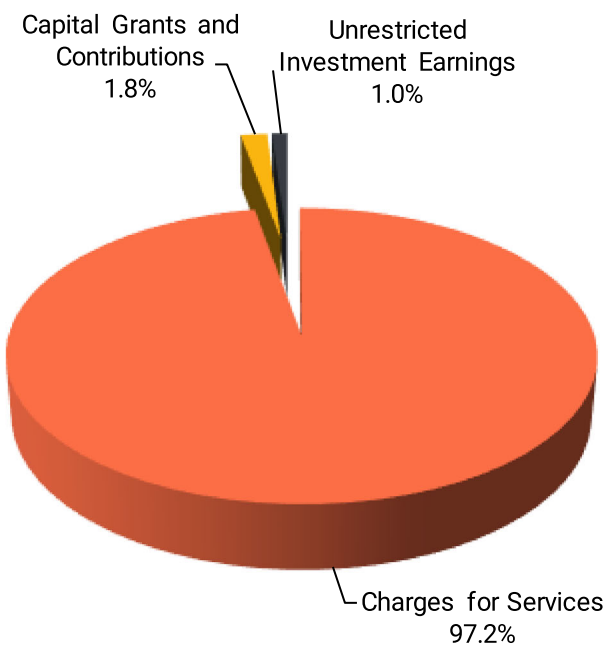
Business-type Activities. Business-type activities increased the City’s net position, as shown in the changes in net position table. Key elements of this increase are as follows:

- Increased capital contributions from governmental activities outweighing decreased operating revenues.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The table below outlines the governmental fund balances for the year ending, December 31, 2024.

| | General Fund | Debt Service Fund | Other Governmental Funds | Total | Prior Year Total | Increase/ (Decrease) |
|---------------|-------------------|-------------------|--------------------------|---------------------|---------------------|----------------------|
| Fund Balances | | | | | | |
| Nonspendable | \$ 54,164 | \$ - | \$ 1,688 | \$ 55,852 | \$ 76,613 | \$ (20,761) |
| Restricted | - | 855,283 | 905,913 | 1,761,196 | 3,107,826 | (1,346,630) |
| Committed | - | - | 755,777 | 755,777 | 613,527 | 142,250 |
| Unassigned | 841,579 | - | (734,384) | 107,195 | 162,876 | (55,681) |
| | <u>\$ 895,743</u> | <u>\$ 855,283</u> | <u>\$ 928,994</u> | <u>\$ 2,680,020</u> | <u>\$ 3,960,842</u> | <u>\$(1,280,822)</u> |

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances as shown above. Additional information on the City's fund balances can be found in Note 1 starting on page 54 of this report.

The *General fund* is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund is shown in the table above. As a measure of the General fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. The total unassigned fund balance as a percent of total fund expenditures is shown in the chart below along with total fund balance as a percent of total expenditures.

| | Current Year Ending Balance | Prior Year Ending Balance | Increase/ (Decrease) |
|---|-----------------------------|---------------------------|----------------------|
| General Fund Fund Balances | | | |
| Nonspendable | \$ 54,164 | \$ 71,283 | \$ (17,119) |
| Unassigned | 841,579 | 732,239 | 109,340 |
| Total General Fund Fund Balances | <u>\$ 895,743</u> | <u>\$ 803,522</u> | <u>\$ 92,221</u> |
| General Fund expenditures | \$ 3,053,578 | \$ 3,015,758 | |
| Unassigned as a percent of expenditures | 27.6% | 24.3% | |
| Total Fund Balance as a percent of expenditures | 29.3% | 26.6% | |

The total fund balance of the City's General fund increased during the current fiscal year as shown in the table above. The increase in fund balance was mainly due to an increase in property taxes and local government aid.

Other major government fund analysis is shown below:

| | December 31, 2024 | December 31, 2023 | Increase (Decrease) |
|-------------------|-------------------|-------------------|---------------------|
| Debt Service fund | \$ 855,283 | \$ 1,541,540 | \$ (686,257) |

The Debt Service fund balance decreased during the year due to the early retirement of the G.O. Refunding Bonds, 2012A and increase in principal and interest debt payments.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

| | Ending Net Position 2024 | Ending Net Position 2023 | Increase/ (Decrease) |
|--|--------------------------------|--------------------------------|-------------------------|
| Water Utility | \$ 3,801,733 | \$ 3,566,589 | \$ 235,144 |
| <i>The Water fund increase in net position is due to a decrease in operating expenses for other services & charges.</i> | | | |
| Sewer Utility | 5,996,134 | 5,860,514 | 135,620 |
| <i>The Sewer fund increase in net position is due to a decrease in operating expenses for other services & charges and capital contributions from governmental funds related to the capitalization of the 2023 street project.</i> | | | |
| Storm Water Utility | 2,581,289 | 1,065,604 | 1,515,685 |
| <i>The Storm Water fund increased in net position during the year due to contributed capital from the capitalization of the 2023 street project and re-allocation of the 2023 G.O Improvement Bond proceeds.</i> | | | |

General Fund Budgetary

| | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget |
|---|------------------------------|-------------------|-------------------------------|
| Revenues | \$ 3,480,317 | \$ 3,455,799 | \$ (24,518) |
| Expenditures | 3,168,317 | 3,053,578 | 114,739 |
| Excess of Revenues Over Expenditures | 312,000 | 402,221 | 90,221 |
| Other Financing Sources (Uses) Transfers out | (312,000) | (310,000) | 2,000 |
| Net Change in Fund Balances | - | 92,221 | 92,221 |
| Fund Balances, January 1 | 803,522 | 803,522 | - |
| Fund Balances, December 31 | \$ 803,522 | \$ 895,743 | \$ 92,221 |

The General fund budgeted for no change in fund balance in 2024. Revenues, expenditures and transfers were under expectations, resulting in an increase in fund balance in 2024. The final budget amounts are shown above.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of December 31, 2024, is shown below in capital asset table (net of accumulated depreciation). This investment in capital assets includes land, structures, improvements, machinery and equipment, vehicles, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year

Major capital asset events during the current fiscal year included the following:

- Construction in progress on the 2023 street improvement project was completed.
- Construction in progress on the 2025 street and utility meter installation and Montgomery well 6 rehabilitation is outstanding as of current year end.
- The City added a various equipment, machinery & vehicles in the current year including: new wheel loader, snow blower attachment, 2024 GMC Sierra, RAS Pump, and fire department radios.
- The City traded in a wheel loader.

Additional information on the City's capital assets can be found in Note 3D starting on page 58 of this report.

City of Montgomery's Capital Assets (Net of Depreciation)

| | Governmental Activities | | | Business-type Activities | | | Total | | |
|------------------------------------|-------------------------|----------------------|------------------------|--------------------------|----------------------|------------------------|----------------------|----------------------|------------------------|
| | 2024 | 2023 | Increase (Decrease) | 2024 | 2023 | Increase (Decrease) | 2024 | 2023 | Increase (Decrease) |
| Land | \$ 782,325 | \$ 782,325 | \$ - | \$ 428,414 | \$ 428,414 | \$ - | \$ 1,210,739 | \$ 1,210,739 | \$ - |
| Buildings | 3,022,778 | 3,115,974 | (93,196) | 5,945,461 | 6,243,849 | (298,388) | 8,968,239 | 9,359,823 | (391,584) |
| Improvement Other than Building | 248,459 | 265,373 | (16,914) | - | - | - | 248,459 | 265,373 | (16,914) |
| Machinery and Equipment | 704,798 | 550,106 | 154,692 | 305,107 | 312,874 | (7,767) | 1,009,905 | 862,980 | 146,925 |
| Infrastructure | 7,857,911 | 5,015,923 | 2,841,988 | 11,496,516 | 8,640,438 | 2,856,078 | 19,354,427 | 13,656,361 | 5,698,066 |
| Vehicles | 549,239 | 419,805 | 129,434 | 37,911 | - | 37,911 | 587,150 | 419,805 | 167,345 |
| Construction in progress | 230,496 | 4,294,109 | (4,063,613) | 128,171 | 1,376,493 | (1,248,322) | 358,667 | 5,670,602 | (5,311,935) |
| Total | <u>\$ 13,396,006</u> | <u>\$ 14,443,615</u> | <u>\$ (1,047,609)</u> | <u>\$ 18,341,580</u> | <u>\$ 17,002,068</u> | <u>\$ 1,339,512</u> | <u>\$ 31,737,586</u> | <u>\$ 31,445,683</u> | <u>\$ 291,903</u> |
| Percent Increase (Decrease) | | | (7.3) | | | 7.9 | | | 0.9 |

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding consisting of special assessment debt, revenue related debt and general obligation debt as noted in the table below. While all of the City's bonds have revenue streams, they are all backed by the full faith and credit of the City.

City of Montgomery's Outstanding Debt

| | Governmental Activities | | | Business-type Activities | | | Total | | |
|----------------------------------|-------------------------|----------------------|------------------------|--------------------------|---------------------|------------------------|----------------------|----------------------|------------------------|
| | 2024 | 2023 | Increase (Decrease) | 2024 | 2023 | Increase (Decrease) | 2024 | 2023 | Increase (Decrease) |
| General Obligation Bonds | \$ 105,000 | \$ 105,000 | \$ - | \$ - | \$ - | \$ - | \$ 105,000 | \$ 105,000 | \$ - |
| G.O. Improvement Bonds | 8,067,500 | 8,448,100 | (380,600) | - | - | - | 8,067,500 | 8,448,100 | (380,600) |
| General Obligation Revenue Bonds | - | - | - | 6,162,500 | 7,011,900 | (849,400) | 6,162,500 | 7,011,900 | (849,400) |
| Revenue Bonds | - | 270,000 | (270,000) | - | - | - | - | 270,000 | (270,000) |
| Notes | 2,484,250 | 2,630,094 | (145,844) | - | - | - | 2,484,250 | 2,630,094 | (145,844) |
| Total | <u>\$ 10,656,750</u> | <u>\$ 11,453,194</u> | <u>\$ (796,444)</u> | <u>\$ 6,162,500</u> | <u>\$ 7,011,900</u> | <u>\$ (849,400)</u> | <u>\$ 16,819,250</u> | <u>\$ 18,465,094</u> | <u>\$ (1,645,844)</u> |
| Percent Increase (Decrease) | | | (7.0) | | | (12.1) | | | (8.9) |

The City's total debt decreased during the current fiscal year. The key factor in this decrease was the repayment of debt following applicable debt schedules and the early retirement of the G.O. Improvement Bonds, 2012A.

Minnesota statutes limit the amount of net general obligation debt a City may issue to 3.0 percent of the market value of taxable property within the City. Net debt is debt payable solely from ad valorem taxes. The current debt limitation for the City is \$11,232,045. The City currently has no debt subject to this limitation.

Additional information on the City's long-term debt can be found in Note 3F starting on page 60 this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Le Sueur County is currently 4.6 percent, which has increased from 4.4 percent in the prior year. This compares unfavorably to the State's average unemployment rate of 2.7 percent and to the national average rate of 3.8 percent.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing the City's budget for the 2025 fiscal year.

The general property tax levy increased 10.8 percent in 2025 over the 2024 levy.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk-Treasurer, City of Montgomery, 201 Ash Avenue Southwest, Montgomery, Minnesota 56069.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

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City of Montgomery, Minnesota
Statement of Net Position
December 31, 2024

| | Primary Government | | | Component Unit |
|---|-------------------------|--------------------------|----------------------|--------------------------------|
| | Governmental Activities | Business-type Activities | Total | Economic Development Authority |
| Assets | | | | |
| Cash and temporary investments | \$ 2,933,520 | \$ 485,573 | \$ 3,419,093 | \$ 143,408 |
| Receivables | | | | |
| Delinquent taxes | 41,738 | - | 41,738 | - |
| Accounts, net of allowances | 95,818 | 266,908 | 362,726 | 290 |
| Lease receivable | - | 240,720 | 240,720 | - |
| Notes | - | - | - | 81,815 |
| Special assessments | 1,295,251 | - | 1,295,251 | - |
| Intergovernmental | 48,887 | - | 48,887 | - |
| Prepaid items | 55,852 | 20,600 | 76,452 | - |
| Pension asset | 30,880 | - | 30,880 | - |
| Capital assets | | | | |
| Nondepreciable assets | 1,012,821 | 556,585 | 1,569,406 | - |
| Depreciable assets, net of accumulated depreciation | 12,383,185 | 17,784,995 | 30,168,180 | - |
| Total Assets | <u>17,897,952</u> | <u>19,355,381</u> | <u>37,253,333</u> | <u>225,513</u> |
| Deferred Outflows of Resources | | | | |
| Deferred pension resources | <u>1,120,813</u> | <u>52,056</u> | <u>1,172,869</u> | <u>-</u> |
| Liabilities | | | | |
| Accounts payable | 393,669 | 80,267 | 473,936 | - |
| Accrued interest payable | 132,688 | 65,870 | 198,558 | - |
| Accrued salaries payable | 60,388 | 12,391 | 72,779 | - |
| Noncurrent liabilities | | | | |
| Due within one year | | | | |
| Long-term liabilities | 745,359 | 823,018 | 1,568,377 | - |
| Due in more than one year | | | | |
| Long-term liabilities | 10,275,054 | 5,542,120 | 15,817,174 | - |
| Net pension liability | 894,106 | 164,967 | 1,059,073 | - |
| Total Liabilities | <u>12,501,264</u> | <u>6,688,633</u> | <u>19,189,897</u> | <u>-</u> |
| Deferred Inflows of Resources | | | | |
| Deferred lease resources | - | 233,562 | 233,562 | - |
| Deferred pension resources | 1,394,603 | 106,086 | 1,500,689 | - |
| Total Deferred Inflows of Resources | <u>1,394,603</u> | <u>339,648</u> | <u>1,734,251</u> | <u>-</u> |
| Net Position | | | | |
| Net investment in capital assets | 2,607,416 | 12,191,984 | 14,799,400 | - |
| Restricted | | | | |
| Debt service | 1,908,823 | - | 1,908,823 | - |
| Economic development | 33,376 | - | 33,376 | - |
| Fire equipment | 596,561 | - | 596,561 | - |
| Small cities assistance funds | 75,000 | - | 75,000 | - |
| Facility improvements | 126,227 | - | 126,227 | - |
| Tax increment financing | 7,877 | - | 7,877 | - |
| Police operations | 2,899 | - | 2,899 | - |
| Crime prevention | 4,384 | - | 4,384 | - |
| Public safety aid | 59,589 | - | 59,589 | - |
| Pension assets | 30,880 | - | 30,880 | - |
| Unrestricted | <u>(330,134)</u> | <u>187,172</u> | <u>(142,962)</u> | <u>225,513</u> |
| Total Net Position | <u>\$ 5,122,898</u> | <u>\$ 12,379,156</u> | <u>\$ 17,502,054</u> | <u>\$ 225,513</u> |

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Statement of Activities
For the Year Ended December 31, 2024

| Functions/Programs | Expenses | Program Revenues | | |
|--------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government | | | | |
| Governmental Activities | | | | |
| General government | \$ 729,682 | \$ 92,317 | \$ 15,717 | \$ - |
| Public safety | 2,159,611 | 253,941 | 215,284 | 183,800 |
| Streets and highways | 985,437 | 43,058 | 77,127 | 89,165 |
| Culture and recreation | 432,384 | 3,498 | 117,160 | - |
| Economic development | 62,708 | - | 32,646 | - |
| Miscellaneous | 151,898 | - | - | - |
| Interest and other costs | 321,366 | - | - | - |
| Total Governmental Activities | <u>4,843,086</u> | <u>392,814</u> | <u>457,934</u> | <u>272,965</u> |
| Business-type Activities | | | | |
| Water utility | 864,830 | 1,074,684 | 2,689 | 19,769 |
| Sewer utility | 1,010,111 | 1,020,155 | 2,689 | 24,000 |
| Storm water utility | 314,749 | 267,187 | 1,769 | - |
| Total Business-type Activities | <u>2,189,690</u> | <u>2,362,026</u> | <u>7,147</u> | <u>43,769</u> |
| Total Primary Government | <u>\$ 7,032,776</u> | <u>\$ 2,754,840</u> | <u>\$ 465,081</u> | <u>\$ 316,734</u> |

General Revenues

Property taxes, levied for general purposes

Property taxes, levied for debt service

Tax increments

Payment in lieu of taxes

Franchise taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Other revenues

Capital Contributions

 Total General Revenues and Transfers

Change in Net Position

Net Position, January 1

Net Position, December 31

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Position

| Primary Government | | | Component Unit |
|----------------------------|-----------------------------|----------------------|--------------------------------------|
| Governmental Activities | Business-type Activities | Total | Economic Development Authority |
| \$ (621,648) | | \$ (621,648) | \$ - |
| (1,506,586) | | (1,506,586) | - |
| (776,087) | | (776,087) | - |
| (311,726) | | (311,726) | - |
| (30,062) | | (30,062) | (34,100) |
| (151,898) | | (151,898) | - |
| (321,366) | | (321,366) | - |
| <u>(3,719,373)</u> | | <u>(3,719,373)</u> | <u>(34,100)</u> |
| | \$ 232,312 | 232,312 | - |
| | 36,733 | 36,733 | - |
| | <u>(45,793)</u> | <u>(45,793)</u> | - |
| | <u>223,252</u> | <u>223,252</u> | - |
| <u>(3,719,373)</u> | <u>223,252</u> | <u>(3,496,121)</u> | <u>(34,100)</u> |
| 2,062,236 | - | 2,062,236 | - |
| 396,270 | - | 396,270 | - |
| 37,261 | - | 37,261 | - |
| 1,706 | - | 1,706 | - |
| 17,392 | - | 17,392 | - |
| 1,051,223 | - | 1,051,223 | - |
| 72,366 | 23,358 | 95,724 | - |
| 51,797 | - | 51,797 | - |
| 628 | - | 628 | - |
| (1,639,839) | 1,639,839 | - | - |
| <u>2,051,040</u> | <u>1,663,197</u> | <u>3,714,237</u> | - |
| (1,668,333) | 1,886,449 | 218,116 | (34,100) |
| <u>6,791,231</u> | <u>10,492,707</u> | <u>17,283,938</u> | <u>259,613</u> |
| <u>\$ 5,122,898</u> | <u>\$ 12,379,156</u> | <u>\$ 17,502,054</u> | <u>\$ 225,513</u> |

The notes to the financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

City of Montgomery, Minnesota

Balance Sheet
Governmental Funds
December 31, 2024

| | General | Debt Service | Other Governmental Funds | Total |
|---|---------------------|---------------------|--------------------------------|---------------------|
| Assets | | | | |
| Cash and temporary investments | \$ 900,863 | \$ 853,125 | \$ 1,179,532 | \$ 2,933,520 |
| Receivables | | | | |
| Delinquent taxes | 41,738 | - | - | 41,738 |
| Accounts, net of allowances | 8,879 | - | 86,939 | 95,818 |
| Special assessments | 21,297 | 1,186,228 | 87,726 | 1,295,251 |
| Intergovernmental | 46,729 | 2,158 | - | 48,887 |
| Prepaid items | 54,164 | - | 1,688 | 55,852 |
| Total Assets | \$ 1,073,670 | \$ 2,041,511 | \$ 1,355,885 | \$ 4,471,066 |
| Liabilities | | | | |
| Accounts payable | \$ 68,684 | \$ - | \$ 324,985 | \$ 393,669 |
| Accrued salaries payable | 46,208 | - | 14,180 | 60,388 |
| Total Liabilities | 114,892 | - | 339,165 | 454,057 |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue | | | | |
| Delinquent taxes | 41,738 | - | - | 41,738 |
| Special assessments | 21,297 | 1,186,228 | 87,726 | 1,295,251 |
| Total Deferred Inflows of Resources | 63,035 | 1,186,228 | 87,726 | 1,336,989 |
| Fund Balances | | | | |
| Nonspendable | 54,164 | - | 1,688 | 55,852 |
| Restricted | - | 855,283 | 905,913 | 1,761,196 |
| Committed | - | - | 755,777 | 755,777 |
| Unassigned | 841,579 | - | (734,384) | 107,195 |
| Total Fund Balances | 895,743 | 855,283 | 928,994 | 2,680,020 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$ 1,073,670 | \$ 2,041,511 | \$ 1,355,885 | \$ 4,471,066 |

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Reconciliation of the Balance Sheet
to the Statement of Net Position
Governmental Funds
December 31, 2024

| | <u>Primary Government</u> |
|--|-------------------------------|
| Amounts reported for governmental activities in the statement of net position are different because | |
| Total Fund Balances - Governmental Funds | \$ 2,680,020 |
| Net capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds. | 13,396,006 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. | |
| Long-term liabilities at year-end consist of | |
| Compensated absences payable | (231,823) |
| Bonds payable | (8,067,500) |
| Bond premiums, net of accumulated amortization | (131,840) |
| Net pension liability | (863,226) |
| Notes payable | (2,589,250) |
| Long-term assets are not available to pay current-period expenditures and, therefore, are delayed in the funds. | |
| Delinquent taxes receivable | 41,738 |
| Special assessments receivable | 1,295,251 |
| Governmental funds do not report long-term amounts related to pensions. | |
| Deferred outflows of pension resources | 1,120,813 |
| Deferred inflows of pension resources | (1,394,603) |
| Governmental funds do not report a liability for accrued interest until due and payable. | <u>(132,688)</u> |
| Total Net Position - Governmental Activities | <u><u>\$ 5,122,898</u></u> |

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2024

| | General | Debt Service | (Formerly Major) Capital Projects | (Formerly Major) 2023 Street Improvements | Other Governmental Funds | Total |
|--|-------------------|-------------------|---|---|--------------------------------|---------------------|
| Revenues | | | | | | |
| Taxes | \$ 2,049,795 | \$ 396,270 | \$ - | \$ - | \$ 54,653 | \$ 2,500,718 |
| Special assessments | - | 248,088 | - | - | 22,033 | 270,121 |
| Licenses and permits | 70,515 | - | - | - | - | 70,515 |
| Intergovernmental | 1,174,254 | - | - | - | 269,491 | 1,443,745 |
| Charges for services | 55,099 | - | - | - | 188,120 | 243,219 |
| Fines and forfeits | 19,662 | - | - | - | 5,986 | 25,648 |
| Investment earnings | 17,083 | 13,239 | - | - | 42,044 | 72,366 |
| Miscellaneous | 69,391 | - | - | - | 193,423 | 262,814 |
| Total Revenues | <u>3,455,799</u> | <u>657,597</u> | <u>-</u> | <u>-</u> | <u>775,750</u> | <u>4,889,146</u> |
| Expenditures | | | | | | |
| Current | | | | | | |
| General government | 671,175 | - | - | - | - | 671,175 |
| Public safety | 1,488,317 | - | - | - | 476,159 | 1,964,476 |
| Streets and highways | 483,727 | - | - | - | - | 483,727 |
| Culture and recreation | 212,557 | - | - | - | 109,951 | 322,508 |
| Economic development | 12,882 | - | - | - | 48,866 | 61,748 |
| Miscellaneous | 100,814 | - | - | - | 51,084 | 151,898 |
| Capital outlay | | | | | | |
| General government | 11,516 | - | - | - | 41,091 | 52,607 |
| Public safety | 55,725 | - | - | - | 29,908 | 85,633 |
| Streets and highways | - | - | - | - | 1,216,065 | 1,216,065 |
| Culture and recreation | 11,865 | - | - | - | 28,180 | 40,045 |
| Debt service | | | | | | |
| Principal | 5,000 | 710,600 | - | - | 45,844 | 761,444 |
| Interest and other | - | 375,909 | - | - | 3,153 | 379,062 |
| Total Expenditures | <u>3,053,578</u> | <u>1,086,509</u> | <u>-</u> | <u>-</u> | <u>2,050,301</u> | <u>6,190,388</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>402,221</u> | <u>(428,912)</u> | <u>-</u> | <u>-</u> | <u>(1,274,551)</u> | <u>(1,301,242)</u> |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | - | - | - | - | 851,967 | 851,967 |
| Transfers out | (310,000) | (257,345) | - | - | (284,622) | (851,967) |
| Total Other Financing Sources (Uses) | <u>(310,000)</u> | <u>(257,345)</u> | <u>-</u> | <u>-</u> | <u>567,345</u> | <u>-</u> |
| Net Change in Fund Balances | <u>92,221</u> | <u>(686,257)</u> | <u>-</u> | <u>-</u> | <u>(707,206)</u> | <u>(1,301,242)</u> |
| Fund Balances, January 1, as Previously Presented | 803,522 | 1,541,540 | (357,600) | 615,173 | 1,358,207 | 3,960,842 |
| Change to the Financial Reporting Entity (Note 8) | | | | | | |
| Change from major to nonmajor fund | - | - | 357,600 | (615,173) | 257,573 | - |
| Error Correction (Note 8) | - | - | - | - | 20,420 | 20,420 |
| Fund Balances, January 1, as Adjusted | <u>803,522</u> | <u>1,541,540</u> | <u>-</u> | <u>-</u> | <u>1,636,200</u> | <u>3,981,262</u> |
| Fund Balances, December 31 | <u>\$ 895,743</u> | <u>\$ 855,283</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 928,994</u> | <u>\$ 2,680,020</u> |

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Reconciliation of the Statement of
Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
For the Year Ended December 31, 2024

| | <u>Primary Government</u> |
|---|-------------------------------|
| Amounts reported for governmental activities in the statement of activities are different because | |
| Net Change in Fund Balances - Governmental Funds | \$ (1,301,242) |
| Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. | |
| Capital outlay | 1,103,314 |
| Depreciation expense | (506,854) |
| The net effect of various miscellaneous transactions involving capital assets | |
| Gain on trade in of capital assets | 51,797 |
| Net capital assets contributed to enterprise funds | (263,346) |
| Transfer of capital assets to enterprise funds | (1,376,493) |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. | |
| Principal repayments | 761,444 |
| Premium on bonds issued, net of amortization expense | 9,870 |
| Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. | 47,826 |
| Long-term pension activity is not reported in governmental funds. | |
| Pension expense | (56,657) |
| Direct aid contributions | 52,022 |
| Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period. | |
| Special assessments | (180,328) |
| Property taxes | 14,147 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | |
| Compensated absences | (23,833) |
| Change in Net Position - Governmental Activities | <u>\$ (1,668,333)</u> |

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
General Fund
For the Year Ended December 31, 2024

| | Budgeted Amounts | | Actual | Variance with |
|--|-------------------|-------------------|-------------------|------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Taxes | \$ 2,076,467 | \$ 2,076,467 | \$ 2,049,795 | \$ (26,672) |
| Licenses and permits | 104,450 | 104,450 | 70,515 | (33,935) |
| Intergovernmental | 1,185,450 | 1,185,450 | 1,174,254 | (11,196) |
| Charges for services | 59,200 | 59,200 | 55,099 | (4,101) |
| Fines and forfeits | 21,500 | 21,500 | 19,662 | (1,838) |
| Investment revenue | 1,000 | 1,000 | 17,083 | 16,083 |
| Miscellaneous | 32,250 | 32,250 | 69,391 | 37,141 |
| Total Revenues | <u>3,480,317</u> | <u>3,480,317</u> | <u>3,455,799</u> | <u>(24,518)</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 674,167 | 674,167 | 671,175 | 2,992 |
| Public safety | 1,545,242 | 1,545,242 | 1,488,317 | 56,925 |
| Streets and highways | 543,185 | 543,185 | 483,727 | 59,458 |
| Culture and recreation | 191,828 | 191,828 | 212,557 | (20,729) |
| Economic development | - | - | 12,882 | (12,882) |
| Miscellaneous | 132,682 | 132,682 | 100,814 | 31,868 |
| Capital outlay | | | | |
| General government | 12,713 | 12,713 | 11,516 | 1,197 |
| Public safety | 48,000 | 48,000 | 55,725 | (7,725) |
| Culture and recreation | 18,500 | 18,500 | 11,865 | 6,635 |
| Debt service | | | | |
| Principal | 2,000 | 2,000 | 5,000 | (3,000) |
| Total Expenditures | <u>3,168,317</u> | <u>3,168,317</u> | <u>3,053,578</u> | <u>114,739</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 312,000 | 312,000 | 402,221 | 90,221 |
| Other Financing Sources (Uses) | | | | |
| Transfers out | <u>(312,000)</u> | <u>(312,000)</u> | <u>(310,000)</u> | <u>2,000</u> |
| Net Change in Fund Balances | - | - | 92,221 | 92,221 |
| Fund Balances, January 1 | <u>803,522</u> | <u>803,522</u> | <u>803,522</u> | <u>-</u> |
| Fund Balances, December 31 | <u>\$ 803,522</u> | <u>\$ 803,522</u> | <u>\$ 895,743</u> | <u>\$ 92,221</u> |

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Statement of Net Position
Proprietary Funds
For the Year Ended December 31, 2024

| | Business-type Activities - Enterprise Funds | | | |
|--|---|---------------------|------------------------|----------------------|
| | Water Utility | Sewer Utility | Storm Water Utility | Total |
| Assets | | | | |
| Current Assets | | | | |
| Cash and temporary investments | \$ 24,309 | \$ 297,531 | \$ 163,733 | \$ 485,573 |
| Receivables | | | | |
| Accounts | 114,515 | 117,424 | 34,969 | 266,908 |
| Leases | 21,930 | - | - | 21,930 |
| Prepaid items | 6,935 | 12,958 | 707 | 20,600 |
| Total Current Assets | 167,689 | 427,913 | 199,409 | 795,011 |
| Noncurrent Assets | | | | |
| Lease receivable | 218,790 | - | - | 218,790 |
| Capital assets at cost | | | | |
| Land | 160,000 | 268,414 | - | 428,414 |
| Buildings | 3,392,049 | 9,056,859 | - | 12,448,908 |
| Infrastructure | 9,158,050 | 4,724,645 | 4,228,275 | 18,110,970 |
| Machinery and equipment | 311,261 | 664,088 | 15,564 | 990,913 |
| Motor vehicles | 14,306 | 14,306 | 14,306 | 42,918 |
| Construction in progress | 128,171 | - | - | 128,171 |
| Less accumulated depreciation | (5,689,742) | (7,092,279) | (1,026,693) | (13,808,714) |
| Total Capital Assets | 7,474,095 | 7,636,033 | 3,231,452 | 18,341,580 |
| Total Noncurrent Assets | 7,692,885 | 7,636,033 | 3,231,452 | 18,560,370 |
| Total Assets | 7,860,574 | 8,063,946 | 3,430,861 | 19,355,381 |
| Deferred Outflows of Resources | | | | |
| Deferred pension resources | 19,693 | 19,697 | 12,666 | 52,056 |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Accounts payable | 28,462 | 37,314 | 14,491 | 80,267 |
| Accrued interest payable | 39,693 | 21,134 | 5,043 | 65,870 |
| Accrued salaries payable | 4,647 | 4,647 | 3,097 | 12,391 |
| Compensated absences payable | 8,673 | 8,673 | 6,272 | 23,618 |
| Bonds payable | 527,300 | 222,100 | 50,000 | 799,400 |
| Total Current Liabilities | 608,775 | 293,868 | 78,903 | 981,546 |
| Noncurrent Liabilities | | | | |
| Compensated absences payable | 21,043 | 21,043 | 13,654 | 55,740 |
| Net pension liability | 62,380 | 62,395 | 40,192 | 164,967 |
| Bonds payable | 3,112,763 | 1,670,186 | 703,431 | 5,486,380 |
| Total Noncurrent Liabilities | 3,196,186 | 1,753,624 | 757,277 | 5,707,087 |
| Total Liabilities | 3,804,961 | 2,047,492 | 836,180 | 6,688,633 |
| Deferred Inflows of Resources | | | | |
| Deferred lease resources | 233,562 | - | - | 233,562 |
| Deferred pension resources | 40,011 | 40,017 | 26,058 | 106,086 |
| Total Deferred Inflows of Resources | 273,573 | 40,017 | 26,058 | 339,648 |
| Net Position | | | | |
| Net investment in capital assets | 3,970,216 | 5,743,747 | 2,478,021 | 12,191,984 |
| Unrestricted | (168,483) | 252,387 | 103,268 | 187,172 |
| Total Net Position | \$ 3,801,733 | \$ 5,996,134 | \$ 2,581,289 | \$ 12,379,156 |

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2024

| | Business-type Activities - Enterprise Funds | | | |
|---|---|----------------------------|----------------------------|-----------------------------|
| | Water Utility | Sewer Utility | Storm Water Utility | Total |
| Operating Revenues | | | | |
| Charges for services | \$ 1,055,429 | \$ 1,018,224 | \$ 267,187 | \$ 2,340,840 |
| Other income | 27,750 | 4,620 | 1,769 | 34,139 |
| Total Operating Revenues | <u>1,083,179</u> | <u>1,022,844</u> | <u>268,956</u> | <u>2,374,979</u> |
| Operating Expenses | | | | |
| Personal services | 212,492 | 212,360 | 111,673 | 536,525 |
| Supplies | 88,756 | 71,014 | 5,699 | 165,469 |
| Other services and charges | 143,965 | 233,730 | 126,315 | 504,010 |
| Utilities | 41,323 | 100,301 | - | 141,624 |
| Depreciation | 300,547 | 346,105 | 60,573 | 707,225 |
| Total Operating Expenses | <u>787,083</u> | <u>963,510</u> | <u>304,260</u> | <u>2,054,853</u> |
| Operating Income (Loss) | <u>296,096</u> | <u>59,334</u> | <u>(35,304)</u> | <u>320,126</u> |
| Nonoperating Revenues (Expenses) | | | | |
| Interest income | 2,832 | 20,526 | - | 23,358 |
| Amortization of premium | 10,920 | 3,655 | 1,803 | 16,378 |
| Interest and other costs | (94,473) | (50,256) | (12,292) | (157,021) |
| Total Nonoperating Revenues (Expenses) | <u>(80,721)</u> | <u>(26,075)</u> | <u>(10,489)</u> | <u>(117,285)</u> |
| Income (Loss) Before Capital Contributions and Transfers | 215,375 | 33,259 | (45,793) | 202,841 |
| Capital Contributions from Governmental Funds | - | 78,361 | 1,561,478 | 1,639,839 |
| Connection Fees | <u>19,769</u> | <u>24,000</u> | <u>-</u> | <u>43,769</u> |
| Change in Net Position | 235,144 | 135,620 | 1,515,685 | 1,886,449 |
| Net Position, January 1 | <u>3,566,589</u> | <u>5,860,514</u> | <u>1,065,604</u> | <u>10,492,707</u> |
| Net Position, December 31 | <u><u>\$ 3,801,733</u></u> | <u><u>\$ 5,996,134</u></u> | <u><u>\$ 2,581,289</u></u> | <u><u>\$ 12,379,156</u></u> |

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2024

| | Business-type Activities - Enterprise Funds | | | |
|---|---|------------------|------------------------|--------------|
| | Water Utility | Sewer Utility | Storm Water Utility | Total |
| Cash Flows from Operating Activities | | | | |
| Receipts from customers | \$ 1,035,580 | \$ 992,692 | \$ 261,642 | \$ 2,289,914 |
| Payments to suppliers and vendors | (239,540) | (418,437) | (107,232) | (765,209) |
| Payments to and on behalf of employees | (222,763) | (222,614) | (82,625) | (528,002) |
| Other receipts | 27,750 | 4,620 | 1,769 | 34,139 |
| Net Cash Provided (Used) by Operating Activities | 601,027 | 356,261 | 73,554 | 1,030,842 |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Acquisition of capital assets | (245,340) | (91,225) | (76,429) | (412,994) |
| Advance (to) from other funds | 250,000 | (250,000) | - | - |
| Connection fees | 19,769 | 24,000 | - | 43,769 |
| Transfer of bond proceeds from (to) other funds | 262,779 | 28,697 | (291,476) | - |
| Transfer of bond proceeds to governmental funds | - | - | (20,420) | (20,420) |
| Principal paid on bonds | (654,849) | (179,551) | (50,000) | (884,400) |
| Interest paid on bonds | (112,624) | (58,637) | (12,780) | (184,041) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (480,265) | (526,716) | (451,105) | (1,458,086) |
| Cash Flows from Investing Activities | | | | |
| Interest received on cash and temporary investments | 2,832 | 20,526 | - | 23,358 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 123,594 | (149,929) | (377,551) | (403,886) |
| Cash and Cash Equivalents, January 1 | (99,285) | 447,460 | 541,284 | 889,459 |
| Cash and Cash Equivalents, December 31 | \$ 24,309 | \$ 297,531 | \$ 163,733 | \$ 485,573 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used) Operating Activities | | | | |
| Operating income (loss) | \$ 296,096 | \$ 59,334 | \$ (35,304) | \$ 320,126 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used) operating activities | | | | |
| Depreciation | 300,547 | 346,105 | 60,573 | 707,225 |
| (Increase) decrease in assets | | | | |
| Accounts receivable | (18,246) | (26,489) | (5,545) | (50,280) |
| Lease receivable | 20,400 | - | - | 20,400 |
| Intergovernmental | 783 | 957 | - | 1,740 |
| Prepaid items | 10,683 | 11,005 | 10,637 | 32,325 |
| (Increase) decrease in deferred outflows of resources | | | | |
| Deferred pension resources | 12,969 | 12,965 | 342 | 26,276 |
| Increase (decrease) in liabilities | | | | |
| Accounts payable | 23,821 | (24,397) | 14,145 | 13,569 |
| Accrued wages payable | 1,661 | 1,661 | 1,226 | 4,548 |
| Compensated absences payable | (1,515) | (1,515) | 11,321 | 8,291 |
| Net pension liability | (33,187) | (33,172) | 2,132 | (64,227) |
| Increase (decrease) in deferred inflows of resources | | | | |
| Deferred lease resources | (22,786) | - | - | (22,786) |
| Deferred pension resources | 9,801 | 9,807 | 14,027 | 33,635 |
| Net Cash Provided by (Used) Operating Activities | \$ 601,027 | \$ 356,261 | \$ 73,554 | \$ 1,030,842 |
| Schedule of Noncash Investing, Capital and Financing Activities | | | | |
| Capital assets contributed from other funds | \$ - | \$ 78,361 | \$ 184,985 | \$ 263,346 |
| Transfer of capital assets from (to) other funds | \$ 670,953 | \$ 761,567 | \$ (1,376,493) | \$ 56,027 |
| Transfer of debt (from) to other funds | \$ (914,069) | \$ (773,615) | \$ 1,652,800 | \$ (34,884) |
| Transfer of accrued interest (from) to other funds | \$ (19,663) | \$ (16,649) | \$ 35,589 | \$ (723) |
| Amortization of bond premium | \$ (10,920) | \$ (3,655) | \$ (1,803) | \$ (16,378) |

The notes to the financial statements are an integral part of this statement.

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City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Montgomery, Minnesota (the City) operates under the "Optional Plan A" as defined in the Minnesota statutes. The City is governed by an elected Mayor and a four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government.

Discretely presented component unit. The Economic Development Authority (EDA) serves all the citizens of the City and is governed by City appointed boards. The EDA was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment within the City in accordance with policies established by the Council. The EDA may not exercise any of the powers enumerated by the authorizing statutes without prior approval of the Council. The EDA board is not substantially the same as the Council, and the EDA does not exclusively benefit the City. In accordance with GASB Statement No. 61, this entity is properly presented as a discretely presented component unit as a governmental activity. Separate financial statements are not issued.

The Housing and Redevelopment Authority of Montgomery, Minnesota (HRA) is an entity legally separated from the City. The HRA is responsible for administering affordable housing programs for eligible individuals and families of Montgomery. The City's officials are responsible for appointing members to the HRA's board of commissioners, but the City's accountability for the HRA does not extend beyond making appointments. The HRA is therefore not considered to be a part of the City's financial reporting entity.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 1: Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City reports the following major governmental funds:

The *General fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service fund* accounts for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 1: Summary of Significant Accounting Policies (Continued)

The City reports the following major proprietary funds:

The *Water Utility fund* accounts for costs associated with the City's water system and to ensure that user charges are sufficient to pay for those costs.

The *Sewer Utility fund* accounts for the costs associated with the City's sewer system and to ensure that user charges are sufficient to pay for those costs.

The *Storm Water Utility fund* accounts for the operation, maintenance, and capital improvements of the City's storm water system.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water, sewer and refuse functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the government-wide cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the Statements of Cash Flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a City with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 1: Summary of Significant Accounting Policies (Continued)

6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Broker money market accounts operate in accordance with appropriate state laws and regulations. The reported values of the pools are the same as the fair value of the shares.

The City's investment policy incorporates Minnesota statutes as described above which reduces the City's exposure to credit, custodial credit and interest rate risks. Specific risk information for the City is as follows:

- *Credit Risk.* Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes and the City's investment policy limit the City's investments.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City's investment policy does not address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.
- *Concentration of Credit Risk.* Is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City places no limit on the amount that may be invested in any one issuer.
- *Interest Rate Risk.* Is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maturity of its investment portfolio to less than five years.

Property Taxes

The Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the governmental financial statements.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2024. Uncollectible utility bills are certified with the county and collected. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible accounts in the Ambulance fund at December 31, 2024, are shown in the table below.

| | <u>Ambulance</u> |
|--------------------------------------|------------------|
| Allowance for Uncollectable Accounts | <u>\$ 7,727</u> |

Special Assessments

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are annually certified to the County or received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the governmental fund financial statements.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Lease Receivable

The City's lease receivable is measured at the present value of lease payments expected to be received during the lease term.

A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of one year. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 1: Summary of Significant Accounting Policies (Continued)

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the acquisition value of the item at the date of its donation. For financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

| Asset | Amount |
|----------------------------|-----------|
| Land and Land Improvements | \$ 10,000 |
| Other Improvements | 25,000 |
| Buildings | 25,000 |
| Building Improvements | 25,000 |
| Machinery and Equipment | 5,000 |
| Vehicles | 5,000 |
| Infrastructure | 100,000 |
| Other Assets | 5,000 |

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
|------------------------------------|---------|
| Land Improvements | 15 - 20 |
| Other Improvements | 15 - 20 |
| Buildings and Improvements | 10 - 40 |
| System Improvements/Infrastructure | 15 - 50 |
| Machinery and Equipment | 5 - 15 |
| Vehicles | 5 - 6 |
| Other Assets | 5 - 15 |

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statements of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 1: Summary of Significant Accounting Policies (Continued)

The total pension expense for the GERP, PEPFP and Montgomery Fire Relief Association is as follows:

| | Public Employees Retirement Association of Minnesota (PERA) | | Fire Relief Association | Total |
|---|--|-------------------|----------------------------|-------------------|
| | GERP | PEPFP | | |
| City's Proportionate Share | \$ 83,441 | \$ 145,500 | \$ (3,715) | \$ 225,226 |
| Proportionate Share of State's Contribution | (228) | 2,224 | - | 1,996 |
| Total | <u>\$ 83,213</u> | <u>\$ 147,724</u> | <u>\$ (3,715)</u> | <u>\$ 227,222</u> |

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, ESST and sick pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. Sick and ESST pay is accrued based on estimated use in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The total amount accrued for compensated absences at December 31, 2024, is \$311,181.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: delinquent taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has two additional items which qualify for reporting in this category, deferred pension resources and leases. Deferred pension resources and leases are reported only in the statements of net position and results from actuarial calculations and lease receivables, respectively.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are delayed and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council (the Council), which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Council modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Council itself or by an official to which the governing body delegates the authority. The Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Administrator and Clerk/Treasurer.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unrestricted fund balance of 40 percent and not more than 50 percent of the estimated General fund expenditure budget the following year.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "net investment in capital assets".

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and Ambulance funds. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the Administrator/Clerk so that a budget may be prepared. Before September 30, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Administrator/Clerk. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted by the Council.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2024, expenditures exceeded appropriations in the following fund:

| <u>Fund</u> | <u>Budget</u> | <u>Actual</u> | <u>Excess of Expenditures Over Appropriations</u> |
|----------------|-------------------|-------------------|---|
| Ambulance Fund | <u>\$ 316,991</u> | <u>\$ 380,651</u> | <u>\$ 63,660</u> |

The above excess of expenditures over appropriations will be funded by future charges for services.

C. Deficit Fund Balance

The following funds had fund balance deficits at December 31, 2024:

| <u>Fund</u> | <u>Amount</u> |
|--------------------------|---------------|
| Nonmajor | |
| Ambulance | \$ 146,327 |
| Capital Projects | 273,613 |
| Memorial Park | 3,853 |
| Communications | 35,482 |
| 2025 Street Improvements | 232,396 |
| Equipment Improvement | 41,025 |

The above deficits will be eliminated through future charges for services and transfers from other funds when resources are available.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on all Funds

A. Deposits and Investments

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The fair value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the government entity.

At year end, the City's carrying amount of deposits, bank balance, FDIC coverage and pledged collateral are shown in the chart below.

| | |
|---|---------------------|
| Carrying amount of deposits | <u>\$ 3,562,501</u> |
| Bank Balance | \$ 3,571,286 |
| Covered by FDIC | (985,910) |
| Collateralized with securities pledged in the City's name | <u>\$ 2,585,376</u> |

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on all Funds

Cash and Investments Summary

A reconciliation of cash and investments as shown on the Statement of Net Position for the City is as follows:

| | Primary Government | Component Unit - EDA | Total Reporting Entity |
|----------|-----------------------|-------------------------|------------------------------|
| Deposits | \$ 3,419,093 | \$ 143,408 | \$ 3,562,501 |

B. Leases Receivable

The City leases Antenna Facilities to T-Mobile Central, LLC. The lease commenced on April 1, 2005 and was originally for 5 years then the agreement will automatically renew for up to five separate additional periods of five years, which the City is expected to execute. Original lease payments were \$1,100 a month, increasing 10.0 percent each year. As of December 31, 2024, the City's receivable was \$240,720 which is partially offset by a deferred inflow of \$233,562.

The annual receipts to maturity for the lease receivable are as follows:

| Year Ending December 31 | Lease Receivable Business-type Activities | | |
|----------------------------|---|----------|------------|
| | Principal | Interest | Total |
| 2025 | \$ 21,930 | \$ - | \$ 21,930 |
| 2026 | 22,440 | - | 22,440 |
| 2027 | 22,440 | - | 22,440 |
| 2028 | 22,440 | - | 22,440 |
| 2029 | 22,440 | - | 22,440 |
| 2030 - 2034 | 122,859 | - | 122,859 |
| 2035 | 6,171 | - | 6,171 |
| Total | \$ 240,720 | \$ - | \$ 240,720 |

C. Notes Receivable

The EDA issued a note through the EDA's Business Assistance Revolving loan program on January 14, 2022, for various improvements. The note was for \$30,000 to be paid back at 3% annual interest rate for 5 years. This note is secured by a mortgage on the property. The current balance of this loan is \$22,392. The EDA also, issued a note through the EDA's Business Assistance Revolving Loan Program on May 25, 2023 for improvements. The note was for \$69,023 to be paid back at 3% annual interest rate for 10 years. This note is secured by the mortgage on the property and has a current balance of \$59,423.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on all Funds (Continued)

D. Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2024 was as follows:

Primary Government

| | Beginning Balance | Adjustment | Increases | Decreases | Ending Balance |
|--|--------------------------|------------------------|-------------------------|---------------------------|--------------------------|
| Governmental Activities | | | | | |
| Capital Assets not Being Depreciated | | | | | |
| Land | \$ 782,325 | \$ - | \$ - | \$ - | \$ 782,325 |
| Construction in progress | 4,294,109 | (56,027) | 601,100 | (4,608,686) | 230,496 |
| Total Capital Assets not Being Depreciated | 5,076,434 | (56,027) | 601,100 | (4,608,686) | 1,012,821 |
| Capital Assets Being Depreciated | | | | | |
| Buildings | 4,176,925 | - | - | - | 4,176,925 |
| Improvements other than buildings | 769,882 | - | - | - | 769,882 |
| Infrastructure | 9,018,240 | - | 3,069,065 | - | 12,087,305 |
| Machinery and equipment | 1,152,409 | - | 260,292 | - | 1,412,701 |
| Vehicles | 1,925,566 | - | 217,704 | (126,274) | 2,016,996 |
| Total Capital Assets Being Depreciated | 17,043,022 | - | 3,547,061 | (126,274) | 20,463,809 |
| Less Accumulated Depreciation | | | | | |
| Buildings | (1,060,951) | - | (93,196) | - | (1,154,147) |
| Improvements other than buildings | (504,509) | - | (16,914) | - | (521,423) |
| Infrastructure | (4,002,317) | - | (227,077) | - | (4,229,394) |
| Machinery and equipment | (602,303) | - | (105,600) | - | (707,903) |
| Vehicles | (1,505,761) | - | (64,067) | 102,071 | (1,467,757) |
| Total Accumulated Depreciation | (7,675,841) | - | (506,854) | 102,071 | (8,080,624) |
| Total Capital Assets Being Depreciated, Net | 9,367,181 | - | 3,040,207 | (24,203) | 12,383,185 |
| Governmental Activities Capital Assets, Net | <u>\$ 14,443,615</u> | <u>\$ (56,027)</u> | <u>\$ 3,641,307</u> | <u>\$ (4,632,889)</u> | <u>\$ 13,396,006</u> |

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on all Funds (Continued)

| | Beginning Balance | Adjustment | Increases | Decreases | Ending Balance |
|---|----------------------|---------------|------------------|--------------------|-------------------|
| Business-type Activities | | | | | |
| Capital Assets not Being Depreciated | | | | | |
| Land | \$ 428,414 | \$ - | \$ - | \$ - | \$ 428,414 |
| Construction in progress | 1,376,493 | 56,027 | 239,467 | (1,543,816) | 128,171 |
| Total Capital Assets not being Depreciated | 1,804,907 | 56,027 | 239,467 | (1,543,816) | 556,585 |
| Capital Assets Being Depreciated | | | | | |
| Buildings | 12,448,908 | - | - | - | 12,448,908 |
| Infrastructure | 14,891,540 | - | 3,219,430 | - | 18,110,970 |
| Machinery and equipment | 958,202 | - | 32,711 | - | 990,913 |
| Vehicles | - | - | 42,918 | - | 42,918 |
| Total Capital Assets Being Depreciated | 28,298,650 | - | 3,295,059 | - | 31,593,709 |
| Less Accumulated Depreciation For | | | | | |
| Buildings | (6,205,059) | - | (298,388) | - | (6,503,447) |
| Infrastructure | (6,251,102) | - | (363,352) | - | (6,614,454) |
| Machinery and equipment | (645,328) | - | (40,478) | - | (685,806) |
| Vehicles | - | - | (5,007) | - | (5,007) |
| Total Accumulated Depreciation | (13,101,489) | - | (707,225) | - | (13,808,714) |
| Total Capital Assets Being Depreciated, Net | 15,197,161 | - | 2,587,834 | - | 17,784,995 |
| Business-type Activities Capital Assets, Net | \$ 17,002,068 | \$ 56,027 | \$ 2,827,301 | \$ (1,543,816) | \$ 18,341,580 |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|---|----------------|
| Governmental Activities | |
| General Government | \$ 16,021 |
| Public Safety | 144,947 |
| Streets and Highways | 276,940 |
| Culture and Recreation | 67,986 |
| Economic Development | 960 |
| Total Depreciation Expense - Governmental Activities | \$ 506,854 |
| Business-type Activities | |
| Water Utility | \$ 300,547 |
| Sewer Utility | 346,105 |
| Storm Water Utility | 60,573 |
| Total Depreciation Expense - Business-type Activities | \$ 707,225 |

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on all Funds (Continued)

E. Interfund Transfers

The following transfers were made for the year ended December 31, 2024:

| | <u>Transfers In</u> |
|-----------------------|-----------------------|
| | <u>Nonmajor funds</u> |
| Transfer Out | |
| General fund | \$ 310,000 |
| Debt Service fund | 257,345 |
| Nonmajor governmental | <u>284,622</u> |
| Total | <u>\$ 851,967</u> |

Transfers occurred during 2024 for the following reasons:

- There were transfers in the amount of \$173,358 and \$83,987 from the G.O. Refunding Bonds 2012A to the Park Improvement and Capital Projects funds, respectively, for the retirement of the 2012A Bond.
- There was a transfer in the amount of \$284,622 from the 2023 Street Improvements fund to the Equipment Replacement fund to cover the costs of the new snow blower and loader with unspent bond proceeds.
- There were transfers made from the General fund to the Street Improvement fund, Park Improvement fund, Equipment Replacement fund and Facility Maintenance fund in the amounts of \$75,000, \$100,000, \$95,000 and \$40,000, respectively to fund operations and future capital improvements.

F. Long-term Debt

General Obligation Bonds

The following bond was issued to finance the purchase of a plow truck. General obligation bonds are direct obligations and pledge the full faith and credit of the government. This obligation is being funded through ad valorem tax levies. General obligation bonds currently outstanding are as follows:

| Description | Authorized and Issued | Interest Rate | Issue Date | Maturity Date | Balance at Year End |
|--|--------------------------|------------------|---------------|------------------|---------------------------|
| G.O. Equipment Certificate Bonds of 2023A | \$ 105,000 | 3.00 - 4.00 % | 05/18/23 | 02/01/29 | <u>\$ 105,000</u> |

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on all Funds (Continued)

The annual debt service requirements to maturity for general obligation bonds are as follows:

| Year Ending December 31 | General Obligation Bonds Governmental Activities | | |
|----------------------------|---|------------------|-------------------|
| | Principal | Interest | Total |
| 2025 | \$ 20,000 | \$ 3,800 | \$ 23,800 |
| 2026 | 20,000 | 3,000 | 23,000 |
| 2027 | 20,000 | 2,200 | 22,200 |
| 2028 | 20,000 | 1,400 | 21,400 |
| 2029 | 25,000 | 500 | 25,500 |
| Total | <u>\$ 105,000</u> | <u>\$ 10,900</u> | <u>\$ 115,900</u> |

G.O. Special Assessment (Improvement) Bonds

The following bonds were issued to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. Each year the combined assessment and tax levy equals 105 percent of the amount required for debt service. The excess of 5 percent is to cover any delinquencies in tax or assessment payments.

| Description | Authorized and Issued | Interest Rate | Issue Date | Maturity Date | Balance at Year End |
|--|--------------------------|------------------|---------------|------------------|---------------------------|
| G.O. Improvement Bonds Bonds of 2015A | \$ 1,700,000 | 2.00 - 3.00 % | 05/14/15 | 02/01/31 | \$ 867,500 |
| G.O. Improvement Bonds Bonds of 2021A | 2,820,000 | 1.20 - 2.00 | 04/08/21 | 02/01/37 | 2,485,000 |
| G.O. Improvement Bonds of 2023A | 4,750,000 | 3.00 - 4.00 | 05/18/23 | 02/01/39 | <u>4,715,000</u> |
| Total G.O. Special Assessment Bonds | | | | | <u>\$ 8,067,500</u> |

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on all Funds (Continued)

The annual debt service requirements to maturity for general obligation special assessment bonds are as follows:

| Year Ending December 31 | G.O. Special Assessment Bonds Governmental Activities | | |
|----------------------------|---|---------------------|---------------------|
| | Principal | Interest | Total |
| 2025 | \$ 525,600 | \$ 223,394 | \$ 748,994 |
| 2026 | 545,600 | 207,153 | 752,753 |
| 2027 | 559,500 | 189,775 | 749,275 |
| 2028 | 569,500 | 171,990 | 741,490 |
| 2029 | 601,100 | 153,482 | 754,582 |
| 2030 - 2034 | 2,811,200 | 525,243 | 3,336,443 |
| 2035 - 2039 | 2,455,000 | 179,331 | 2,634,331 |
| Total | <u>\$ 8,067,500</u> | <u>\$ 1,650,368</u> | <u>\$ 9,717,868</u> |

G.O. Revenue Bonds

The following bonds were issued to finance capital improvements in the enterprise funds. They will be retired from net revenues of the enterprise funds.

| Description | Authorized and Issued | Interest Rate | Issue Date | Maturity Date | Balance at Year End |
|--|--------------------------|------------------|---------------|------------------|---------------------------|
| G.O. Water and Sewer Refunding Bonds of 2010A | \$ 725,000 | 1.50 - 4.30 % | 07/28/10 | 02/01/25 | \$ 120,000 |
| G.O. Sewer Revenue of 2015A | 505,000 | 2.00 - 3.00 | 05/14/15 | 02/01/31 | 257,500 |
| G.O. Water and Sewer Refunding Bonds of 2016A | 3,095,000 | 2.50 - 2.75 | 12/15/16 | 02/01/29 | 1,410,000 |
| G.O. Water and Sewer Refunding Bonds of 2017A | 2,205,000 | 2.00 - 2.25 | 11/08/17 | 02/01/28 | 940,000 |
| G.O. Water, Sewer and Storm Sewer Revenue Bonds of 2021A | 1,990,000 | 1.20 - 2.00 | 04/08/21 | 02/01/37 | 1,755,000 |
| G.O. Storm Sewer Revenue Bonds of 2023A | 1,645,000 | 3.00 - 4.00 | 05/18/23 | 02/01/39 | <u>1,680,000</u> |
| Total G.O. Revenue Bonds | | | | | <u>\$ 6,162,500</u> |

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on all Funds (Continued)

Annual revenues from charges for services, principal and interest payments, and percentage of revenue required to cover principal and interest payments are as follows:

| | <u>Water</u> | <u>Sewer</u> | <u>Storm Sewer</u> |
|------------------------|--------------|--------------|--------------------|
| Revenues | \$ 1,055,429 | \$ 1,018,224 | \$ 267,187 |
| Principal and Interest | 767,473 | 238,188 | 62,780 |
| Percentage of Revenues | 72.7% | 23.4% | 23.5% |

The annual debt service requirements to maturity for general obligation revenue bonds are as follows:

| <u>Year Ending December 31</u> | G.O. Revenue Bonds Business-type Activities | | |
|------------------------------------|---|-------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2025 | \$ 799,400 | \$ 147,968 | \$ 947,368 |
| 2026 | 814,400 | 126,826 | 941,226 |
| 2027 | 765,500 | 106,160 | 871,660 |
| 2028 | 790,500 | 85,839 | 876,339 |
| 2029 | 568,900 | 67,428 | 636,328 |
| 2030 - 2034 | 1,333,800 | 216,205 | 1,550,005 |
| 2035 - 2039 | 1,090,000 | 69,210 | 1,159,210 |
| Total | <u>\$ 6,162,500</u> | <u>\$ 819,636</u> | <u>\$ 6,982,136</u> |

Notes Payable

The following notes were issued to the City to purchase land for the use of park development, to finance the purchase of a plow truck, and to finance the police department building project. The park land payments are quarterly at a zero percent interest rate. The plow truck payments are made annually at a 3.88 percent interest rate. The police building note payments are made semi-annually at a 3.40 percent interest rate.

| <u>Description</u> | <u>Authorized and Issued</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Balance at Year End</u> |
|------------------------------------|----------------------------------|--------------------------|-----------------------|--------------------------|------------------------------------|
| Park land | \$ 35,000 | - % | 07/31/19 | 06/30/26 | \$ 6,250 |
| Police department finance purchase | 2,573,000 | 3.40 | 08/11/22 | 02/01/33 | <u>2,478,000</u> |
| Total Notes Payable | | | | | <u>\$ 2,484,250</u> |

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on all Funds (Continued)

The annual debt service requirements to maturity for notes payable are as follows:

| Year Ending December 31 | Notes Governmental Activities | | |
|----------------------------|----------------------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2025 | \$ 103,000 | \$ 83,419 | \$ 186,419 |
| 2026 | 102,250 | 80,070 | 182,320 |
| 2027 | 105,000 | 76,602 | 181,602 |
| 2028 | 109,000 | 72,998 | 181,998 |
| 2029 | 113,000 | 69,258 | 182,258 |
| 2030 - 2033 | 1,952,000 | 211,106 | 2,163,106 |
| Total | <u>\$ 2,484,250</u> | <u>\$ 593,453</u> | <u>\$ 3,077,703</u> |

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2024, was as follows:

| | Beginning Balance | Adjustment | Increases | Decreases | Ending Balance | Due Within One Year |
|---|----------------------|--------------------|------------------|---------------------|----------------------|------------------------|
| Governmental Activities | | | | | | |
| Bonds Payable | | | | | | |
| General Obligation Special | | | | | | |
| Assessment Bonds | \$ 8,448,100 | \$ (35,000) | \$ - | \$ (345,600) | \$ 8,067,500 | \$ 525,600 |
| General Obligation Bonds | 105,000 | - | - | - | 105,000 | 20,000 |
| General Obligation Special | | | | | | |
| Revenue Bonds | 270,000 | - | - | (270,000) | - | - |
| Total Bonds Payable | <u>8,823,100</u> | <u>(35,000)</u> | <u>-</u> | <u>(615,600)</u> | <u>8,172,500</u> | <u>545,600</u> |
| Notes Payable | 2,630,094 | - | - | (145,844) | 2,484,250 | 103,000 |
| Compensated Absences | | | | | | |
| Payable * | 207,990 | - | 23,833 | - | 231,823 | 96,759 |
| Bond Premiums | 141,594 | 116 | - | (9,870) | 131,840 | - |
| Governmental Activity Long-term Liabilities | <u>\$ 11,802,778</u> | <u>\$ (34,884)</u> | <u>\$ 23,833</u> | <u>\$ (771,314)</u> | <u>\$ 11,020,413</u> | <u>\$ 745,359</u> |
| Business-type Activities | | | | | | |
| Bonds Payable | | | | | | |
| General Obligation Bond | | | | | | |
| Revenue Bonds | \$ 7,011,900 | \$ 35,000 | \$ - | \$ (884,400) | \$ 6,162,500 | \$ 799,400 |
| Compensated Absences | | | | | | |
| Payable * | 71,067 | - | 8,291 | - | 79,358 | 23,618 |
| Bond Premiums | 139,774 | (116) | - | (16,378) | 123,280 | - |
| Business-type Activity Long-term Liabilities | <u>\$ 7,222,741</u> | <u>\$ 34,884</u> | <u>\$ 8,291</u> | <u>\$ (900,778)</u> | <u>\$ 6,365,138</u> | <u>\$ 823,018</u> |
| Discretely presented component unit | | | | | | |
| Revenue Bonds | <u>\$ 270,000</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (270,000)</u> | <u>\$ -</u> | <u>\$ -</u> |

*Balances shown net of increases and decreases

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 3: Detailed Notes on all Funds (Continued)

G. Components of Fund Balance

At December 31, 2024, portions of the City's fund balance are not available for appropriation due to not being in spendable form (Nonspendable), legal restrictions (Restricted), City Council action (Committed), policy and/or intent (Assigned). The following is a summary of the components of fund balance:

| | General | Debt Service | Other Governmental Funds | Total |
|-------------------------------|-------------------|-------------------|--------------------------------|---------------------|
| Nonspendable | | | | |
| Prepaid Items | <u>\$ 54,164</u> | <u>\$ -</u> | <u>\$ 1,688</u> | <u>\$ 55,852</u> |
| Restricted | | | | |
| Debt Service | \$ - | \$ 855,283 | \$ - | \$ 855,283 |
| Economic Development | - | - | 33,376 | 33,376 |
| Fire Equipment | - | - | 596,561 | 596,561 |
| Small Cities Assistance Funds | - | - | 75,000 | 75,000 |
| Facility Improvements | - | - | 126,227 | 126,227 |
| Tax Increment Financing | - | - | 7,877 | 7,877 |
| Police Operations | - | - | 2,899 | 2,899 |
| Crime Prevention | - | - | 4,384 | 4,384 |
| Public Safety Aid | - | - | 59,589 | 59,589 |
| Total | <u>\$ -</u> | <u>\$ 855,283</u> | <u>\$ 905,913</u> | <u>\$ 1,761,196</u> |
| Committed | | | | |
| Street Improvements | \$ - | \$ - | \$ 535,455 | \$ 535,455 |
| Park Improvements | - | - | 220,322 | 220,322 |
| Total | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 755,777</u> | <u>\$ 755,777</u> |
| Unassigned | <u>\$ 841,579</u> | <u>\$ -</u> | <u>\$ (734,384)</u> | <u>\$ 107,195</u> |

City of Montgomery, Minnesota
Notes to the Financial Statements
For the Year Ended December 31, 2024

Note 4: Defined Benefit Pension Plans - Statewide

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). These plan provisions are established and administered according to Minnesota Statutes chapters 353, 353D, 353E, 353G and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (General Plan)

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

Public Employees Police and Fire Plan (Police and Fire Plan)

Membership in the Police and Fire Plan includes full-time, licensed police officers and firefighters who meet the membership criteria defined in Minnesota Statutes section 353.64 and who are not earning service credit in any other PERA retirement plan or a local relief association for the same service. Employers can provide Police and Fire Plan coverage for part-time positions and certain other public safety positions by submitting a resolution adopted by the entity's governing body. The resolution must state that the position meets plan requirements.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service. When a member is "vested," they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

General Employee Plan Benefits

General Employees Plan requires three years of service to vest. Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2 percent of the highest average salary for each of the first 10 years of service and 1.7 percent for each additional year. Under the Level formula, General Plan members receive 1.7 percent of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25 percent for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of 0.25 percent for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

City of Montgomery, Minnesota
Notes to the Financial Statements
For the Year Ended December 31, 2024

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. The 2024 annual increase was 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a prorated increase.

Police and Fire Plan Benefits

Benefits for Police and Fire Plan members hired before July 1, 2010, are vested after three years of service. Members hired on or after July 1, 2010, are 50 percent vested after five years of service and 100 percent vested after ten years. After five years, vesting increase by 10 percent each full year of service until members are 100 percent vested after ten years. Police and Fire Plan members receive 3 percent of highest average salary for all years of service. Police and Fire Plan members receive a full retirement benefit when they are age 55 and vested, or when their age plus their years of service equals 90 or greater if they were first hired before July 1, 1989. Early retirement starts at age 50, and early retirement benefits are reduced by 0.417 percent each month members are younger than age 55.

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

C. Contributions

Minnesota Statutes chapters 353, 353E, 353G and 356 set the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

General Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2024 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the years ending December 31, 2024, 2023 and 2022, were \$83,095, \$73,831 and \$60,994, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

Police and Fire Fund Contributions

Police and Fire Plan members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2024 and the City was required to contribute 17.70 percent for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the years ending December 31, 2024, 2023 and, 2022 were \$116,612, \$108,318 and \$94,669, respectively. The City's contributions were equal to the required contributions for each year as set by state statute.

City of Montgomery, Minnesota
Notes to the Financial Statements
For the Year Ended December 31, 2024

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2024, the City reported a liability of \$458,390 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$11,853.

| | |
|--|--------------------------|
| City's Proportionate Share of the Net Pension Liability | \$ 458,390 |
| State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City | <u>11,853</u> |
| Total | <u><u>\$ 470,243</u></u> |

The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2023 through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0124 percent at the end of the measurement period and 0.0117 percent for the beginning of the period.

For the year ended December 31, 2024, the City recognized pension expense of \$83,441 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional negative \$228 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$170.1 million to the General Employees Fund. The State of Minnesota is not included as a non-employer contributing entity in the General Employees Plan pension allocation schedules for the \$170.1 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The City recognized \$21,092 for the year ended December 31, 2024 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the General Employees Fund.

At December 31, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences Between Expected and Actual Economic Experience | \$ 42,009 | \$ - |
| Changes in Actuarial Assumptions | 1,878 | 166,349 |
| Net Difference Between Projected and Actual Investment Earnings | - | 136,014 |
| Changes in Proportion | 57,280 | - |
| Contributions Paid to PERA Subsequent to the Measurement Date | <u>42,870</u> | <u>-</u> |
| Total | <u><u>\$ 144,037</u></u> | <u><u>\$ 302,363</u></u> |

City of Montgomery, Minnesota
Notes to the Financial Statements
For the Year Ended December 31, 2024

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

The \$42,870 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2025. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | | |
|------|----|----------|
| 2025 | \$ | (91,361) |
| 2026 | | (19,388) |
| 2027 | | (55,315) |
| 2028 | | (35,132) |

Police and Fire Fund Pension Costs

At December 31, 2024, the City reported a liability of \$600,683 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2023 through June 30, 2024, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0457 percent at the end of the measurement period and 0.0456 percent for the beginning of the period.

The State of Minnesota contributed \$37.4 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2024. The contribution consisted of \$9 million in direct state aid that meets the definition of a special funding situation, additional one-time direct state aid contribution of \$19.4 million, and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. Additionally, \$9 million supplemental state aid was paid on October 1, 2024. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$22,898.

| | | |
|--|----|-----------------------|
| City's Proportionate Share of the Net Pension Liability | \$ | 600,683 |
| State of Minnesota's Proportionate Share of the Net Pension Liability Associated with the City | | <u>22,898</u> |
| Total | \$ | <u><u>623,581</u></u> |

For the year ended December 31, 2024, the City recognized pension expense of \$145,500 for its proportionate share of the Police and Fire Plan's pension expense. In addition, the City recognized an additional \$2,224 as pension expense (grant revenue) for its proportionate share of the State of Minnesota's contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$28.4 million in supplemental state aid because this contribution was not considered to meet the definition of a special funding situation. The City recognized \$4,109 for the year ended December 31, 2024 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund.

City of Montgomery, Minnesota
Notes to the Financial Statements
For the Year Ended December 31, 2024

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

At December 31, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences Between Expected and Actual Economic Experience | \$ 232,153 | \$ - |
| Changes in Actuarial Assumptions | 644,685 | 883,126 |
| Net Difference Between Projected and Actual Investment Earnings | - | 163,366 |
| Changes in Proportion | 26,272 | 28,285 |
| Contributions Paid to PERA Subsequent to the Measurement Date | 59,209 | - |
| | <u>\$ 962,319</u> | <u>\$ 1,074,777</u> |
| Total | | |

The \$59,209 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| | |
|------|------------|
| 2025 | \$ (5,589) |
| 2026 | 147,964 |
| 2027 | (94,920) |
| 2028 | (232,964) |
| 2029 | 13,842 |

E. Long-term Expected Return on Investment

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-term Expected Return on Investment |
|----------------------|----------------------|---|
| Domestic Equity | 33.5 % | 5.10 % |
| International Equity | 16.5 | 5.30 |
| Fixed Income | 25.0 | 0.75 |
| Private Markets | 25.0 | 5.90 |
| | <u>100.0 %</u> | |
| Total | | |

City of Montgomery, Minnesota
Notes to the Financial Statements
For the Year Ended December 31, 2024

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

F. Actuarial Assumptions

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2024, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7.0%. The 7.0% assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7.0% is within that range.

Inflation is assumed to be 2.25% for the General Employees Plan and Police and Fire Plan.

Benefit increases after retirement are assumed to be 1.25% for the General Employees Plan and 1.0% for the Police and Fire Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 27 years of service. In the Police and Fire Plan, salary growth assumptions range in annual increments from 11.75% after one year of service to 3.0% after 24 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the board and became effective with the July 1, 2023 actuarial valuation. The Police and Fire Plan were reviewed in 2024. PERA anticipates the experience study will be approved by the Legislative Commission on Pensions and Retirement and become effective with the July 1, 2025

The following changes in actuarial assumptions and plan provisions occurred in 2024:

General Employees Fund

Changes in Actuarial Assumptions

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

City of Montgomery, Minnesota
Notes to the Financial Statements
For the Year Ended December 31, 2024

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

Police and Fire Fund

Changes in Plan Provisions

- The State contribution of \$9 million per year will continue until the earlier of 1) both the Police and Fire Plan and the State Patrol Retirement Fund attain 90 percent funded status for three consecutive years (on an actuarial value of assets basis) or 2) July 1, 2048. The contribution was previously due to expire after attaining a 90 percent funded status for one year.
- The additional \$9 million contribution will continue until the Police and Fire Plan is fully funded for a minimum of three consecutive years on an actuarial value of assets basis, or July 1, 2048, whichever is earlier. This contribution was previously due to expire upon attainment of fully funded status on an actuarial value of assets basis for one year (or July 1, 2048 if earlier).

G. Discount Rate

The discount rate used to measure the total pension liability in 2024 was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees and Police and Fire Plans were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

| | 1 Percent Decrease (6.0%) | Current (7.0%) | 1 Percent Increase (8.0%) |
|------------------------|------------------------------|----------------|------------------------------|
| General Employees Fund | \$ 1,001,197 | \$ 458,390 | \$ 11,881 |
| Police and Fire Fund | 1,419,531 | 600,683 | (71,763) |

I. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 5: Defined Benefit Pension Plan - Fire Relief Association

A. Plan Description

All members of the Montgomery Fire Department (the Department) are covered by a Defined Benefit Plan (the Plan) administered by the Montgomery Fire Department Relief Association (the Association). The Plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income. As of December 31, 2024, the plan covered 26 active firefighters and 3 vested terminated firefighters whose pension benefits are deferred.

B. Benefits Provided

The bylaws of the Association also provide for an early vested service pension for a retiring member who has completed fewer than 20 years of service. The reduced pension, available to members with 10 years of service, shall be equal to 60 percent of the pension as prescribed by the bylaws. This percentage increases 4 percent per year so that at 20 years of service, the full amount prescribed is paid. Members who retire with less than 20 years of service and have reached the age of 50 years and have completed at least 10 years of active membership are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member's service pension for the completed years of service times the applicable non-forfeitable percentage of pension.

C. Contributions

Minnesota statutes, chapters 424 and 424A authorize pension benefits for volunteer fire relief associations. The plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota statutes and voluntary City contributions. The State of Minnesota contributed \$36,678 in fire state aid to the plan on behalf of the City Fire Department for the year ended December 31, 2024, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the plan for the year ended December 31, 2024 were \$20,000. The City's contributions were equal to the required contributions as set by state statute.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)

D. Pension Costs

At December 31, 2024, the City reported a net pension liability of negative \$30,880 for the Volunteer Firefighter Fund. The net pension liability was measured as of December 31, 2024. The total pension liability used to calculate the net pension liability in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the Department. The following table presents the changes in net pension liability (asset) during the year:

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a-b) |
|-------------------------------------|--------------------------------------|--|--|
| Beginning Balance December 31, 2023 | \$ 830,517 | \$ 777,666 | \$ 52,851 |
| Changes for the Year | | | |
| Service cost | 45,430 | - | 45,430 |
| Interest on pension liability | 33,518 | - | 33,518 |
| Changes in benefit terms | (5,834) | - | (5,834) |
| Actuarial experience (gains)/losses | - | - | - |
| Changes in assumptions | (20,356) | - | (20,356) |
| Contributions - state and local | - | 56,678 | (56,678) |
| Net investment income | - | 81,586 | (81,586) |
| Benefit payments | (76,000) | (76,000) | - |
| Administrative expenses | - | (1,775) | 1,775 |
| Total Net Changes | (23,242) | 60,489 | (83,731) |
| Ending Balance December 31, 2024 | \$ 807,275 | \$ 838,155 | \$ (30,880) |

For the year ended December 31, 2024, the City recognized pension expense of \$40,393.

At December 31, 2024, the City reported its deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, to the plan from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences Between Expected and Actual Experience | \$ - | \$ 105,584 |
| Changes in Assumptions | 10,521 | 17,965 |
| Net Difference Between Projected and Actual Earnings on Plan Investments | 35,992 | - |
| Contributions to Plan Subsequent to the Measurement Date | 20,000 | - |
| Total | \$ 66,513 | \$ 123,549 |

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)

Deferred outflows of resources totaling \$20,000 related to pensions resulting from the City's contributions to the plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2025. Other amounts reported as deferred outflows of resources related to the plan will be recognized in pension expense as follows:

| | |
|------------|-------------|
| 2024 | \$ (17,621) |
| 2025 | (8,322) |
| 2026 | 1,445 |
| 2027 | (24,591) |
| 2028 | (14,427) |
| Thereafter | (13,520) |

E. Actuarial Assumption

The total pension liability at December 31, 2024 was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

| | |
|--|---|
| Discount Rate | 5.00% |
| Expected Return on Plan Assets | 5.00% |
| Inflation Rate | 2.50% |
| Mortality | <p>Healthy Pre-retirement: Pub-2010 Public Safety Employee mortality tables with projected mortality improvements based on scale MP-2021.</p> <p>Healthy Post -retirement: Pub-2010 Healthy Retired Public Safety mortality tables with projected mortality improvements based on scale MP-2021. Male rates are adjusted by a factor of 0.98.</p> <p>Disabled: Pub-2010 Public Safety Disabled Retiree mortality tables with projected mortality improvements based on scale MP-2021. Male rates are adjusted by a factor of 1.05</p> |
| Index Rate for 20-Year Municipal Bonds | 3.86% |

The following changes in actuarial assumptions and plan provisions occurred in 2024:

Changes in Actuarial Assumptions:

- The expected investment return and discount rate increased from 4.00% to 5.00% to reflect updated capital market assumptions
- The mortality assumption was updated from the rates used in the July , 2021 Minnesota PERA Police & Fire Plan actuarial valuation to the rate used in the July 1, 2023 Minnesota PERA Police & Fire Plan actuarial valuation.
- The inflation assumption increased from 2.25% to 2.50%

Changes in Plan Provisions:

- No changes since the previous valuation.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 5: Defined Benefit Pension Plan - Fire Relief Association (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability was 5.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the City's net pension liability for the plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension liability would be if it were calculated using a discount rate one percent lower or one percent higher than the current discount rate:

| | 1 Percent Decrease (4.00%) | Current (5.00%) | 1 Percent Increase (6.00%) |
|----------------------|-------------------------------|-----------------|-------------------------------|
| Defined Benefit Plan | \$ (14,494) | \$ (30,880) | \$ (4,697) |

H. Asset Allocation

The long-term expected rate of return on pension plan investments was set based on the plan's target investment allocation along with long-term return expectations by asset class. All economic assumptions were based on input from various published sources and projected future financial data available.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|----------------------|----------------------|--|
| Domestic Equity | 60.0 % | 4.52 % |
| Fixed Income | 35.0 | 2.44 |
| Cash and Equivalents | 5.0 | 0.99 |
| Total | <u>100.0 %</u> | |

I. Pension Plan Fiduciary Net Position

Detailed information about the Montgomery Firefighter Fund's fiduciary net position as of June 30, 2024, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Montgomery Fire Relief Association, 201 Ash Ave SW, Montgomery, MN 56069.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 6: Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. There were no significant reductions in insurance coverage from the previous year. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. Legal Debt Margin

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of three percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues or tax increments. As of December 31, 2024, the City is under the legal debt margin.

D. Tax Increment Districts

The City's tax increment Districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

E. Concentrations

The City receives a significant amount of its annual General fund revenues from the State of Minnesota via the Local Government Aid (LGA) program. The amount received in 2024 was \$1,050,767 which accounted for 30.4 percent of General fund revenues.

City of Montgomery, Minnesota
Notes to the Financial Statements
December 31, 2024

Note 7: Tax Abatements

As of December 31, 2024, the City has one agreement entered into by the City listed below that abates City property taxes. The City entered into a tax increment financing agreement (TIF #8) on 5/5/2008 with a developer in which the developer incurs costs for property improvements related to the assisted living and medical center project. In return, the City will reimburse the developer for some costs as the city collects future tax increment for the increased property value and tax capacity related to the economic development. The pay-as-you-go agreement has a maximum return to the developer of \$825,600 over the life of the agreement. The agreement was negotiated under state law (Minnesota Statute 469.124-469.134). The calculation of taxes abated during the fiscal year is noted in the chart below.

| | City Tax Rate (Year of Establishment) | | District Tax Capacity | Amount of Taxes Abated Current Year |
|--|---|----|--------------------------|---|
| Tax Increment Districts (PAYGO) | | | | |
| TIF #8 (Assisted Living Facility and Medical Clinic) | 115.8 % | \$ | 32,918 | \$ 38,111 |

Note 8: Adjustments to and Restatements of Beginning Balances

During fiscal year 2024, changes to or within the financial reporting entity and an error correction resulted in adjustments to and restatements of beginning fund net position as follows:

| | Reporting Units | | |
|---|------------------|-------------|--------------|
| | Funds | | |
| | Capital Projects | 2023 Street | Nonmajor |
| January 1, 2024, as previously reported | \$ (357,600) | \$ 615,173 | \$ 1,358,207 |
| Change in reporting entity | | | |
| Change from major to nonmajor fund | 357,600 | (615,173) | 257,573 |
| Error correction | - | - | 20,420 |
| January 1, 2024, as adjusted and restated | \$ - | \$ - | \$ 1,636,200 |

Change within major and nonmajor fund reporting

During fiscal year 2024, the Capital Projects and 2023 Street Improvement funds were determined to be nonmajor. The effects of the change within the financial reporting entity is shown in the table above.

Correction of an Error in Previously Issued Financial Statements

During fiscal year 2024, it was determined that the 2023A G.O. Improvement Bonds were incorrectly allocated between funds causing bond proceeds to be understated in the nonmajor governmental funds. The effects of this change are shown in the table above.

Change in Accounting Principle

During fiscal year 2024, the City adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 100, Accounting Changes and Error Corrections, and Statement No. 101, Compensated Absences, for the year ended December 31, 2024. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements. There were no adjustments or restatements of beginning balances needed for the adoption of these statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

City of Montgomery, Minnesota
Required Supplementary Information
For the Year Ended December 31, 2024

Schedule of Employer's Share of PERA Net Pension Liability - General Employees Fund

| Fiscal Year Ending | City's Proportion of the Net Pension Liability | City's Proportionate Share of the Net Pension Liability (a) | State's Proportionate Share of the Net Pension Liability Associated with the City (b) | Total (a+b) | City's Covered Payroll (c) | City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|--------------------|--|---|---|-------------|----------------------------|--|--|
| 6/30/2024 | 0.0124 % | \$ 458,390 | \$ 11,853 | \$ 470,243 | \$ 1,049,409 | 43.7 % | 86.7 % |
| 6/30/2023 | 0.0117 | 654,251 | 18,152 | 672,403 | 933,979 | 70.0 | 83.1 |
| 6/30/2022 | 0.0104 | 823,683 | 24,137 | 847,820 | 749,383 | 109.9 | 76.7 |
| 6/30/2021 | 0.0101 | 431,315 | 13,161 | 444,476 | 753,348 | 57.3 | 87.0 |
| 6/30/2020 | 0.0093 | 557,578 | 17,217 | 574,795 | 625,200 | 89.2 | 79.0 |
| 6/30/2019 | 0.0082 | 453,360 | 14,166 | 467,526 | 581,640 | 77.9 | 80.2 |
| 6/30/2018 | 0.0072 | 399,426 | 13,214 | 412,640 | 462,957 | 86.3 | 79.5 |
| 6/30/2017 | 0.0074 | 472,411 | 5,940 | 478,351 | 499,895 | 94.5 | 75.9 |
| 6/30/2016 | 0.0071 | 576,485 | - | 576,485 | 439,309 | 131.2 | 68.9 |
| 6/30/2015 | 0.0066 | 342,046 | - | 342,046 | 383,470 | 89.2 | 78.2 |

Schedule of Employer's PERA Contributions - General Employees Fund

| Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | City's Covered Payroll (c) | Contributions as a Percentage of Covered Payroll (b/c) |
|-------------|---------------------------------------|--|--|----------------------------|--|
| 12/31/2024 | \$ 83,095 | \$ 83,095 | \$ - | \$ 1,107,932 | 7.50 % |
| 12/31/2023 | 73,831 | 73,831 | - | 984,407 | 7.50 |
| 12/31/2022 | 60,994 | 60,994 | - | 813,257 | 7.50 |
| 12/31/2021 | 60,768 | 60,768 | - | 810,245 | 7.50 |
| 12/31/2020 | 50,363 | 50,363 | - | 671,504 | 7.50 |
| 12/31/2019 | 44,310 | 44,310 | - | 590,796 | 7.50 |
| 12/31/2018 | 40,942 | 40,942 | - | 545,887 | 7.50 |
| 12/31/2017 | 34,310 | 34,310 | - | 457,472 | 7.50 |
| 12/31/2016 | 35,783 | 35,783 | - | 477,104 | 7.50 |
| 12/31/2015 | 30,345 | 30,345 | - | 404,605 | 7.50 |

City of Montgomery, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2024

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in Actuarial Assumptions

2024 - The following changes in assumptions are effective with the July 1, 2024 valuation, as recommended in the most recent experience study (dated June 29, 2023): Rates of merit and seniority were adjusted, resulting in slightly higher rates. Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members. Minor increase in assumed withdrawals for males and females. Lower rates of disability. Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study. Minor changes to form of payment assumptions for male and female retirees. Minor changes to assumptions made with respect to missing participant data.

2023 - The investment return and single discount rates were changed from 6.5 percent to 7.0 percent.

2022 - The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021 - The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 - The price inflation assumption was decreased from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

City of Montgomery, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2024

Notes to the Required Supplementary Information - General Employee Retirement Fund (Continued)

Changes in Plan Provisions

2024 - The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

2023 - An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023. The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service. The benefit increase delay for early retirements on or after January 1, 2024 was eliminated. A one-time non-compounding benefit increase of 2.5 percent minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 - There were no changes in plan provisions since the previous valuation.

2021 - There were no changes in plan provisions since the previous valuation.

2020 - Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 - The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.0 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90.0 percent funding ratio to 50.0 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 - The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 - There were no changes in plan provisions since the previous valuation.

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

City of Montgomery, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2024

Schedule of Employer's Share of PERA Net Pension Liability - Police and Fire Fund

| Fiscal Year Ending | City's Proportion of the Net Pension Liability | City's Proportionate Share of the Net Pension Liability (a) | State's Proportionate Share of the Net Pension Liability Associated with the City (b) | Total (a+b) | City's Covered Payroll (c) | City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|--------------------|--|---|---|-------------|----------------------------|--|--|
| 6/30/2024 | 0.0457 % | \$ 600,683 | \$ 22,898 | \$ 623,581 | \$ 632,247 | 95.0 % | 87.0 % |
| 6/30/2023 | 0.0456 | 787,453 | 31,695 | 819,148 | 598,556 | 131.6 | 86.5 |
| 6/30/2022 | 0.0469 | 2,040,903 | 89,069 | 2,129,972 | 480,785 | 424.5 | 70.5 |
| 6/30/2021 | 0.0395 | 304,898 | 13,715 | 318,613 | 485,240 | 62.8 | 93.7 |
| 6/30/2020 | 0.0391 | 515,380 | 12,165 | 527,545 | 427,011 | 120.7 | 87.2 |
| 6/30/2019 | 0.0374 | 398,161 | - | 398,161 | 394,484 | 100.9 | 89.3 |
| 6/30/2018 | 0.0283 | 301,649 | - | 301,649 | 286,199 | 105.4 | 88.8 |
| 6/30/2017 | 0.0310 | 418,537 | - | 418,537 | 327,394 | 127.8 | 85.4 |
| 6/30/2016 | 0.0300 | 1,203,952 | - | 1,203,952 | 291,621 | 412.8 | 63.9 |
| 6/30/2015 | 0.0320 | 363,595 | - | 363,595 | 289,291 | 125.7 | 86.6 |

Schedule of Employer's PERA Contributions - Police and Fire Fund

| Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | City's Covered Payroll (c) | Contributions as a Percentage of Covered Payroll (b/c) |
|-------------|---------------------------------------|--|--|----------------------------|--|
| 12/31/2024 | \$ 116,612 | \$ 116,612 | \$ - | \$ 658,824 | 17.70 % |
| 12/31/2023 | 108,318 | 108,318 | - | 611,964 | 17.70 |
| 12/31/2022 | 94,669 | 94,669 | - | 534,854 | 17.70 |
| 12/31/2021 | 89,315 | 89,315 | - | 504,606 | 17.70 |
| 12/31/2020 | 81,056 | 81,056 | - | 457,944 | 17.70 |
| 12/31/2019 | 64,166 | 64,166 | - | 378,562 | 16.95 |
| 12/31/2018 | 60,646 | 60,646 | - | 374,356 | 16.20 |
| 12/31/2017 | 45,581 | 45,581 | - | 281,366 | 16.20 |
| 12/31/2016 | 49,546 | 49,546 | - | 305,838 | 16.20 |
| 12/31/2015 | 46,075 | 46,075 | - | 284,414 | 16.20 |

City of Montgomery, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2024

Notes to the Required Supplementary Information - Police and Fire Fund

Changes in Actuarial Assumptions

2024 - Changes in Plan Provisions The State contribution of \$9 million per year will continue until the earlier of 1) both the Police and Fire Plan and the State Patrol Retirement Fund attain 90 percent funded status for three consecutive years (on an actuarial value of assets basis) or 2) July 1, 2048. The contribution was previously due to expire after attaining a 90 percent funded status for one year. The additional \$9 million contribution will continue until the Police and Fire Plan is fully funded for a minimum of three consecutive years on an actuarial value of assets basis, or July 1, 2048, whichever is earlier. This contribution was previously due to expire upon attainment of fully funded status on an actuarial value of assets basis for one year (or July 1, 2048 if earlier).

2023 - The investment return assumption was changed from 6.5 percent to 7.0 percent. The single discount rate changed from 5.4 percent to 7.0 percent.

2022 - The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021. The single discount rate changed from 6.50 percent to 5.40 percent.

2021 - The investment return and single discount rates were changed from 7.5 percent to 6.5 percent, for financial reporting purposes. The inflation assumption was changed from 2.5 percent to 2.25 percent. The payroll growth assumption was changed from 3.25 percent to 3.0 percent. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020. The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020). Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates. Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements. Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations. Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities. Assumed percent married for active female members was changed from 60.0 percent to 70.0 percent. Minor changes to form of payment assumptions were applied.

2020 - The mortality projection scale was changed from MP-2018 to MP-2019.

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - The mortality projection scale was changed from MP-2016 to MP-2017.

2017 - Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65 percent to 60 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing joint and survivor annuities was increased. The assumed post-retirement benefit increase rate was changed from 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 percent thereafter. The single discount rate was changed from 5.6 percent to 7.5 percent.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2037 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 5.6 percent. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.5 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2037 and 2.5 percent per year thereafter.

City of Montgomery, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2024

Notes to the Required Supplementary Information - Police and Fire Fund (Continued)

Changes in Plan Provisions

2024 - The State contribution of \$9 million per year will continue until the earlier of 1) both the Police and Fire Plan and the State Patrol Retirement Fund attain 90 percent funded status for three consecutive years (on an actuarial value of assets basis) or 2) July 1, 2048. The contribution was previously due to expire after attaining a 90 percent funded status for one year.

The additional \$9.0 million contribution will continue until the Police and Fire Plan is fully funded for a minimum of three consecutive years on an actuarial value of assets basis, or July 1, 2048, whichever is earlier. This contribution was previously due to expire upon attainment of fully funded status on an actuarial value of assets basis for one year (or July 1, 2048 if earlier).

2023 - An additional one-time direct state aid contribution of \$19.4 million will be contributed to the Plan on October 1, 2023. The vesting requirement for new hires after June 30, 2014 was changed from a graded 20-year vesting schedule to a graded 10-year vesting schedule, with 50 percent vesting after five years increasing incrementally to 100 percent after 10 years. A one-time non-compounding benefit increase of 3.0 percent will be payable in a lump sum for calendar year 2024 by March 31, 2024. Psychological treatment is required effective July 1, 2023 prior to approval for a duty disability benefit for a psychological condition relating to the member's occupation. The total and permanent duty disability was increased, effective July 1, 2023.

2022 - There were no changes in plan provisions since the previous valuation.

2021 - There were no changes in plan provisions since the previous valuation.

2020 - There were no changes in plan provisions since the previous valuation.

2019 - There were no changes in plan provisions since the previous valuation.

2018 - As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger. An end date of July 1, 2048 was added to the existing \$9 million state contribution. New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier. Member contributions were changed from 10.8 percent to 11.3 percent of pay, effective January 1, 2019 and 11.8 percent of pay, effective January 1, 2020. Employer contributions were changed from 16.2 percent to 16.95 percent of pay, effective January 1, 2019 and 17.7 percent of pay, effective January 1, 2020. Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.0 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates. Assumed rates of retirement were changed, resulting in fewer retirements. The combined service annuity (CSA) load was 30.0 percent for vested and non-vested, deferred members. The CSA has been changed to 33.0 percent for vested members and 2.0 percent for non-vested members. The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees. Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall. Assumed percentage of married female members was decreased from 65.0 percent to 60.0 percent. Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females. The assumed percentage of female members electing joint and survivor annuities was increased. The assumed postretirement benefit increase rate was changed from 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 percent thereafter. The single discount rate was changed from 5.6 percent per annum to 7.5 percent per annum.

2016 - There were no changes in plan provisions since the previous valuation.

2015 - The post-retirement benefit increase to be paid after attainment of the 90 percent funding threshold was changed, from inflation up to 2.5 percent, to a fixed rate of 2.5 percent.

City of Montgomery, Minnesota
Required Supplementary Information (Continued)
December 31, 2024

Schedule of Changes in the Fire Relief Association's Net Pension Liability (Asset) and Related Ratios

| | 2024 (Fire Relief Report Date 2023) | 2023 (Fire Relief Report Date 2022) | 2022 (Fire Relief Report Date 2021) | 2021 (Fire Relief Report Date 2020) | 2020 (Fire Relief Report Date 2019) | 2019 (Fire Relief Report Date 2018) | 2018 (Fire Relief Report Date 2017) |
|--|---|---|---|---|---|---|---|
| Total Pension Liability | | | | | | | |
| Service cost | \$ 45,430 | \$ 44,430 | \$ 50,544 | \$ 49,432 | \$ 45,556 | \$ 41,514 | \$ 40,501 |
| Interest on pension liability (asset) | 33,518 | 33,059 | 37,991 | 36,575 | 34,697 | 28,341 | 25,991 |
| Changes of benefit terms | - | - | 48,999 | - | 144,640 | 53,230 | - |
| Differences between expected and actual experience | (5,834) | - | (106,115) | - | (90,273) | - | - |
| Changes of assumptions | (20,356) | - | 9,527 | - | 12,385 | - | - |
| Benefit payments | (76,000) | (58,020) | (47,200) | (64,096) | - | - | (41,000) |
| Net Change in Total Pension Liability | (23,242) | 19,469 | (6,254) | 21,911 | 147,005 | 123,085 | 25,492 |
| Total Pension Liability - January 1 | 830,517 | 811,048 | 817,302 | 795,391 | 648,386 | 525,301 | 499,809 |
| Total Pension Liability - December 31 (a) | \$ 807,275 | \$ 830,517 | \$ 811,048 | \$ 817,302 | \$ 795,391 | \$ 648,386 | \$ 525,301 |
| Plan Fiduciary Net Position | | | | | | | |
| Contributions - state and local | \$ 56,678 | \$ 53,972 | \$ 52,800 | \$ 52,541 | \$ 48,816 | \$ 37,847 | \$ 38,272 |
| Nonemployer contributions | - | - | - | - | - | - | - |
| Net investment income | 81,586 | (130,756) | 71,122 | 80,910 | 98,746 | (40,160) | 60,260 |
| Gain (loss) | - | - | - | - | - | - | - |
| Benefit payments | (76,000) | (58,020) | (47,200) | (64,096) | - | - | (41,000) |
| Administrative expenses | (1,775) | (1,725) | (1,725) | (1,725) | (1,725) | (1,725) | (1,725) |
| Net Change in Plan Fiduciary Net Position | 60,489 | (136,529) | 74,997 | 67,630 | 145,837 | (4,038) | 55,807 |
| Plan Fiduciary Net Position - January 1 | 777,666 | 914,195 | 839,198 | 771,568 | 625,731 | 629,769 | 573,962 |
| Plan Fiduciary Net Position - December 31 (b) | \$ 838,155 | \$ 777,666 | \$ 914,195 | \$ 839,198 | \$ 771,568 | \$ 625,731 | \$ 629,769 |
| Fire Relief's Net Pension Liability (Asset) - December 31 (a-b) | \$ (30,880) | \$ 52,851 | \$ (103,147) | \$ (21,896) | \$ 23,823 | \$ 22,655 | \$ (104,468) |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (b/a) | 103.8% | 93.6% | 112.7% | 102.7% | 97.0% | 96.5% | 119.9% |
| Covered-Employee Payroll | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Fire Relief's Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Notes to the Required Supplementary Information - Fire Relief Association

Changes in Actuarial Assumptions

2023 - No changes.

City of Montgomery, Minnesota
Required Supplementary Information (Continued)
December 31, 2024

Notes to the Required Supplementary Information - Fire Relief Association (Continued)

2022 - The expected investment return and discount rate decreased from 4.50 percent to 4.00 percent to reflect updated capital market assumptions. The disability, mortality, and withdrawal assumptions were updated from the rates used in the July 1, 2019 Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2021 Minnesota PERA Police & Fire Plan actuarial valuation.

2021 - No changes.

2020 - The inflation assumption was decreased from 2.50 percent to 2.25 percent. The expected investment return and discount rate decreased from 5.00% to 4.50% to reflect updated capital markets. The mortality assumptions were updated from the rates used in the July 1, 2017 Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2019 Minnesota PERA Police & Fire Plan actuarial valuation.

2019 - No changes.

2018 - No changes since implementation was in 2018.

Changes in Plan Provisions

2023 - No changes.

2022 - The lump sum benefit amount increased from \$2,800 to \$3,000

2021 - The lump sum benefit amount increased from \$2,400 to \$2,800.

2020 - Changes in benefit terms increased \$91,410.

2019 - The lump sum benefit amount increased from \$2,200 to \$2,400.

2018 - No changes since implementation was in 2018.

Schedule of Employer's Fire Relief Association Contributions

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

| Year Ending | Actuarial Determined Contribution (a) | Actual Contributions Paid (b) | Contribution Deficiency (Excess) (a-b) |
|----------------|--|--|---|
| 12/31/2024 | \$ 36,678 | \$ 56,678 | \$ (20,000) |
| 12/31/2023 | 35,678 | 53,972 | (18,294) |
| 12/31/2022 | 31,972 | 52,800 | (20,828) |
| 12/31/2021 | 31,800 | 52,541 | (20,741) |
| 12/31/2020 | 30,541 | 50,541 | (20,000) |
| 12/31/2019 | 28,816 | 48,816 | (20,000) |
| 12/31/2018 | 27,847 | 37,847 | (10,000) |
| 12/31/2017 | 28,272 | 38,272 | (10,000) |
| 12/31/2016 | 28,219 | 38,219 | (10,000) |
| 12/31/2015 | 27,995 | 37,995 | (10,000) |

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COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

City of Montgomery, Minnesota
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2024

| | Nonmajor Special Revenue | Nonmajor Capital Projects | Total |
|---|--------------------------------|---------------------------------|---------------------|
| Assets | | | |
| Cash and temporary investments | \$ (150,276) | \$ 1,329,808 | \$ 1,179,532 |
| Receivables | | | |
| Accounts, net of allowance | 86,939 | - | 86,939 |
| Special assessments | - | 87,726 | 87,726 |
| Prepaid items | 1,688 | - | 1,688 |
| | <u>1,688</u> | <u>-</u> | <u>1,688</u> |
| Total Assets | <u>\$ (61,649)</u> | <u>\$ 1,417,534</u> | <u>\$ 1,355,885</u> |
| Liabilities | | | |
| Accounts payable | \$ 1,708 | \$ 323,277 | \$ 324,985 |
| Accrued salaries payable | 14,180 | - | 14,180 |
| Total Liabilities | <u>15,888</u> | <u>323,277</u> | <u>339,165</u> |
| Deferred Inflows of Resources | | | |
| Unavailable revenue | | | |
| Special assessments | - | 87,726 | 87,726 |
| | <u>-</u> | <u>87,726</u> | <u>87,726</u> |
| Fund Balances | | | |
| Nonspendable | 1,688 | - | 1,688 |
| Restricted | 108,125 | 797,788 | 905,913 |
| Committed | - | 755,777 | 755,777 |
| Unassigned | (187,350) | (547,034) | (734,384) |
| Total Fund Balances | <u>(77,537)</u> | <u>1,006,531</u> | <u>928,994</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ (61,649)</u> | <u>\$ 1,417,534</u> | <u>\$ 1,355,885</u> |

City of Montgomery, Minnesota
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
For the Year Ended December 31, 2024

| | Nonmajor Special Revenue | Nonmajor Capital Projects | Total |
|--|--------------------------------|---------------------------------|-------------------|
| Revenues | | | |
| Taxes | \$ 54,653 | \$ - | \$ 54,653 |
| Special assessments | - | 22,033 | 22,033 |
| Intergovernmental | 223,559 | 45,932 | 269,491 |
| Charges for services | | | |
| Public safety | 188,120 | - | 188,120 |
| Fines and forfeits | 5,986 | - | 5,986 |
| Investment earnings | 1,010 | 41,034 | 42,044 |
| Miscellaneous | 10,403 | 183,020 | 193,423 |
| Total Revenues | <u>483,731</u> | <u>292,019</u> | <u>775,750</u> |
| Expenditures | | | |
| Current | | | |
| Public safety | 476,159 | - | 476,159 |
| Culture and recreation | 109,951 | - | 109,951 |
| Economic development | 48,866 | - | 48,866 |
| Miscellaneous | 51,084 | - | 51,084 |
| Capital outlay | | | |
| General government | - | 41,091 | 41,091 |
| Public safety | 1,678 | 28,230 | 29,908 |
| Streets and highways | - | 1,216,065 | 1,216,065 |
| Culture and recreation | - | 28,180 | 28,180 |
| Debt service | | | |
| Principal | - | 45,844 | 45,844 |
| Interest and other | - | 3,153 | 3,153 |
| Total Expenditures | <u>687,738</u> | <u>1,362,563</u> | <u>2,050,301</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (204,007) | (1,070,544) | (1,274,551) |
| Other Financing Sources (Uses) | | | |
| Transfers in | - | 851,967 | 851,967 |
| Transfers out | - | (284,622) | (284,622) |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>567,345</u> | <u>567,345</u> |
| Net Change in Fund Balances | <u>(204,007)</u> | <u>(503,199)</u> | <u>(707,206)</u> |
| Fund Balances, January 1, as Previously Reported | 126,470 | 1,231,737 | 1,358,207 |
| Change to the Financial Reporting Entity (Note 8) | | | |
| Change from major to nonmajor fund | - | 257,573 | 257,573 |
| Error Correction (Note 8) | - | 20,420 | 20,420 |
| Fund Balances, January 1, as Adjusted | <u>126,470</u> | <u>1,509,730</u> | <u>1,636,200</u> |
| Fund Balances , December 31 | <u>\$ (77,537)</u> | <u>\$ 1,006,531</u> | <u>\$ 928,994</u> |

City of Montgomery, Minnesota
Nonmajor Special Revenue Funds
Combining Balance Sheet
December 31, 2024

| | 204 | 206 | 211 | 214 | 216 |
|-------------------------------------|---------------------|-----------------|---------------------|-------------------|-------------------------------|
| | Ambulance | Police | Crime Prevention | Memorial Park | MVAC Grant 2021 Housing |
| Assets | | | | | |
| Cash and temporary investments | \$ (201,674) | \$ 2,899 | \$ 4,384 | \$ (3,853) | \$ 8,605 |
| Receivables | | | | | |
| Accounts, net of allowance | 69,547 | - | - | - | - |
| Prepaid items | 1,688 | - | - | - | - |
| | <u>1,688</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Assets | <u>\$ (130,439)</u> | <u>\$ 2,899</u> | <u>\$ 4,384</u> | <u>\$ (3,853)</u> | <u>\$ 8,605</u> |
| Liabilities | | | | | |
| Accounts payable | \$ 1,708 | \$ - | \$ - | \$ - | \$ - |
| Accrued salaries payable | 14,180 | - | - | - | - |
| Total Liabilities | <u>15,888</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balances | | | | | |
| Nonspendable | 1,688 | - | - | - | - |
| Restricted | - | 2,899 | 4,384 | - | 8,605 |
| Unassigned | (148,015) | - | - | (3,853) | - |
| Total Fund Balances | <u>(146,327)</u> | <u>2,899</u> | <u>4,384</u> | <u>(3,853)</u> | <u>8,605</u> |
| Total Liabilities and Fund Balances | <u>\$ (130,439)</u> | <u>\$ 2,899</u> | <u>\$ 4,384</u> | <u>\$ (3,853)</u> | <u>\$ 8,605</u> |

| 217 | 218 | 224 | 227 | 228 | 231 | |
|--------------------|------------------|----------------------------------|---------------------------------------|-----------------------------|-------------------------------|--------------------|
| Communications | SMIF Grant | Shade Tree Disease Control | TIF #8 Assisted Living Facility | TIF #8 Medical Clinic | Public Safety Aid Grant | Total |
| \$ (52,874) | \$ 24,771 | \$ - | \$ 6,188 | \$ 1,689 | \$ 59,589 | \$ (150,276) |
| 17,392 | - | - | - | - | - | 86,939 |
| - | - | - | - | - | - | 1,688 |
| <u>\$ (35,482)</u> | <u>\$ 24,771</u> | <u>\$ -</u> | <u>\$ 6,188</u> | <u>\$ 1,689</u> | <u>\$ 59,589</u> | <u>\$ (61,649)</u> |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,708 |
| - | - | - | - | - | - | 14,180 |
| - | - | - | - | - | - | 15,888 |
| - | - | - | - | - | - | 1,688 |
| - | 24,771 | - | 6,188 | 1,689 | 59,589 | 108,125 |
| (35,482) | - | - | - | - | - | (187,350) |
| <u>(35,482)</u> | <u>24,771</u> | <u>-</u> | <u>6,188</u> | <u>1,689</u> | <u>59,589</u> | <u>(77,537)</u> |
| <u>\$ (35,482)</u> | <u>\$ 24,771</u> | <u>\$ -</u> | <u>\$ 6,188</u> | <u>\$ 1,689</u> | <u>\$ 59,589</u> | <u>\$ (61,649)</u> |

City of Montgomery, Minnesota
Nonmajor Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2024

| | 204 | 206 | 211 | 214 | 216 MVAC Grant 2021 Housing | 217 |
|-----------------------------|---------------------|-----------------|---------------------|-------------------|--------------------------------------|--------------------|
| | Ambulance | Police | Crime Prevention | Memorial Park | | Communications |
| Revenues | | | | | | |
| Taxes | | | | | | |
| Tax increments | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Franchise taxes | - | - | - | - | - | 17,392 |
| Intergovernmental | 81,273 | - | - | - | - | - |
| Charges for services | | | | | | |
| Public safety | 188,120 | - | - | - | - | - |
| Fines and forfeits | - | 5,986 | - | - | - | - |
| Investment earnings | - | - | - | - | - | - |
| Miscellaneous | | | | | | |
| Donations | 2,800 | - | 2,820 | - | - | - |
| Refunds and reimbursements | 2,633 | - | - | - | - | - |
| Other | - | - | - | 2,150 | - | - |
| Total Revenues | <u>274,826</u> | <u>5,986</u> | <u>2,820</u> | <u>2,150</u> | <u>-</u> | <u>17,392</u> |
| Expenditures | | | | | | |
| Current | | | | | | |
| Public safety | 378,973 | 6,456 | 2,584 | - | - | - |
| Culture and recreation | - | - | - | 311 | - | - |
| Economic development | - | - | - | - | - | - |
| Miscellaneous | - | - | - | - | - | 51,084 |
| Capital outlay | | | | | | |
| Public safety | 1,678 | - | - | - | - | - |
| Total Expenditures | <u>380,651</u> | <u>6,456</u> | <u>2,584</u> | <u>311</u> | <u>-</u> | <u>51,084</u> |
| Net Change in Fund Balances | (105,825) | (470) | 236 | 1,839 | - | (33,692) |
| Fund Balances, January 1 | <u>(40,502)</u> | <u>3,369</u> | <u>4,148</u> | <u>(5,692)</u> | <u>8,605</u> | <u>(1,790)</u> |
| Fund Balances, December 31 | <u>\$ (146,327)</u> | <u>\$ 2,899</u> | <u>\$ 4,384</u> | <u>\$ (3,853)</u> | <u>\$ 8,605</u> | <u>\$ (35,482)</u> |

| 218 SMIF Grant | 224 Shade Tree Disease Control | 227 TIF #8 Assisted Living Facility | 228 TIF #8 Medical Clinic | 230 American Rescue Plan Act Grant | 231 Public Safety Aid Grant | Total |
|-----------------------------|--|---|---|--|---|--------------------|
| \$ - | \$ - | \$ 26,828 | \$ 10,433 | \$ - | \$ - | \$ 37,261 |
| - | - | - | - | - | - | 17,392 |
| 20,000 | 109,640 | - | - | 12,646 | - | 223,559 |
| - | - | - | - | - | - | 188,120 |
| - | - | - | - | - | - | 5,986 |
| - | - | 727 | 283 | - | - | 1,010 |
| - | - | - | - | - | - | 5,620 |
| - | - | - | - | - | - | 2,633 |
| - | - | - | - | - | - | 2,150 |
| <u>20,000</u> | <u>109,640</u> | <u>27,555</u> | <u>10,716</u> | <u>12,646</u> | <u>-</u> | <u>483,731</u> |
| - | - | - | - | - | 88,146 | 476,159 |
| - | 109,640 | - | - | - | - | 109,951 |
| 77 | - | 26,023 | 10,120 | 12,646 | - | 48,866 |
| - | - | - | - | - | - | 51,084 |
| - | - | - | - | - | - | 1,678 |
| <u>77</u> | <u>109,640</u> | <u>26,023</u> | <u>10,120</u> | <u>12,646</u> | <u>88,146</u> | <u>687,738</u> |
| 19,923 | - | 1,532 | 596 | - | (88,146) | (204,007) |
| <u>4,848</u> | <u>-</u> | <u>4,656</u> | <u>1,093</u> | <u>-</u> | <u>147,735</u> | <u>126,470</u> |
| <u>\$ 24,771</u> | <u>\$ -</u> | <u>\$ 6,188</u> | <u>\$ 1,689</u> | <u>\$ -</u> | <u>\$ 59,589</u> | <u>\$ (77,537)</u> |

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City of Montgomery, Minnesota
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
Ambulance Fund
For the Year Ended December 31, 2024
(With Comparative Totals for Year Ended December 31, 2023)

| | 2024 | | | | 2023 |
|-----------------------------|---------------------|---------------------|---------------------|--------------------|--------------------|
| | Budgeted Amounts | | Actual | Variance with | Actual |
| | Original | Final | Amounts | Final Budget | Amounts |
| Revenues | | | | | |
| Intergovernmental | | | | | |
| State - other | \$ 2,000 | \$ 2,000 | \$ 81,273 | \$ 79,273 | \$ 2,297 |
| Charges for services | 224,094 | 224,094 | 188,120 | (35,974) | 205,331 |
| Miscellaneous | | | | | |
| Contributions and donations | 500 | 500 | 2,800 | 2,300 | 75 |
| Refunds and reimbursements | - | - | 2,633 | 2,633 | - |
| Total Revenues | <u>226,594</u> | <u>226,594</u> | <u>274,826</u> | <u>48,232</u> | <u>207,703</u> |
| Expenditures | | | | | |
| Current | | | | | |
| Public safety | | | | | |
| Personal services | 234,041 | 234,041 | 296,859 | (62,818) | 209,970 |
| Supplies | 21,600 | 21,600 | 27,176 | (5,576) | 33,662 |
| Other services and charges | 37,150 | 37,150 | 54,938 | (17,788) | 46,915 |
| Capital outlay | | | | | |
| Public safety | - | - | 1,678 | (1,678) | - |
| Debt service | | | | | |
| Principal | 24,200 | 24,200 | - | 24,200 | - |
| Total Expenditures | <u>316,991</u> | <u>316,991</u> | <u>380,651</u> | <u>(63,660)</u> | <u>290,547</u> |
| Net Change in Fund Balances | (90,397) | (90,397) | (105,825) | (15,428) | (82,844) |
| Fund Balances, January 1 | <u>(40,502)</u> | <u>(40,502)</u> | <u>(40,502)</u> | <u>-</u> | <u>42,342</u> |
| Fund Balances, December 31 | <u>\$ (130,899)</u> | <u>\$ (130,899)</u> | <u>\$ (146,327)</u> | <u>\$ (15,428)</u> | <u>\$ (40,502)</u> |

The notes to the financial statements are an integral part of this statement.

City of Montgomery, Minnesota
Nonmajor Capital Projects Funds
Combining Balance Sheet
December 31, 2024

| | 203 | 401 | 421 | 422 | 423 |
|---|---------------------------|-----------------------------|--------------------------------|------------------------------|----------------------------------|
| | <u>Fire Equipment</u> | <u>Capital Projects</u> | <u>Street Improvements</u> | <u>Park Improvements</u> | <u>Equipment Replacement</u> |
| Assets | | | | | |
| Cash and temporary investments | \$ 596,561 | \$ (273,613) | \$ 610,455 | \$ 220,322 | \$ 256,348 |
| Receivables | | | | | |
| Special assessments | - | - | 87,726 | - | - |
| Total Assets | <u>\$ 596,561</u> | <u>\$ (273,613)</u> | <u>\$ 698,181</u> | <u>\$ 220,322</u> | <u>\$ 256,348</u> |
| Liabilities | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ 297,373 |
| Deferred Inflows of Resources | | | | | |
| Unavailable revenue | | | | | |
| Special assessments | - | - | 87,726 | - | - |
| Fund Balances | | | | | |
| Restricted | 596,561 | | 75,000 | - | - |
| Committed | - | | 535,455 | 220,322 | - |
| Unassigned | - | (273,613) | - | | (41,025) |
| Total Fund Balances | <u>596,561</u> | <u>(273,613)</u> | <u>610,455</u> | <u>220,322</u> | <u>(41,025)</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 596,561</u> | <u>\$ (273,613)</u> | <u>\$ 698,181</u> | <u>\$ 220,322</u> | <u>\$ 256,348</u> |

| 424 | 428 | 429 | |
|-------------------------|-----------------------------|-----------------------------|---------------------|
| Facility Maintenance | 2023 Street Improvements | 2025 Street Improvements | Total |
| \$ 126,227 | \$ - | \$ (206,492) | \$ 1,329,808 |
| - | - | - | 87,726 |
| <u>\$ 126,227</u> | <u>\$ -</u> | <u>\$ (206,492)</u> | <u>\$ 1,417,534</u> |
| \$ - | \$ - | \$ 25,904 | \$ 323,277 |
| - | - | - | 87,726 |
| 126,227 | - | - | 797,788 |
| - | - | - | 755,777 |
| - | - | (232,396) | (547,034) |
| <u>126,227</u> | <u>-</u> | <u>(232,396)</u> | <u>1,006,531</u> |
| <u>\$ 126,227</u> | <u>\$ -</u> | <u>\$ (206,492)</u> | <u>\$ 1,417,534</u> |

City of Montgomery, Minnesota
Nonmajor Capital Projects Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2024

| | 203 | 401 <i>(Formerly Major)</i> | 421 | 422 | 423 |
|--|-------------------|---------------------------------------|------------------------|----------------------|--------------------------|
| | Fire Equipment | Capital Projects | Street Improvements | Park Improvements | Equipment Replacement |
| Revenues | | | | | |
| Special assessments | \$ - | \$ - | \$ 22,033 | \$ - | \$ - |
| Intergovernmental - state | - | - | 45,932 | - | - |
| Investment earnings | 11,552 | - | - | 2,566 | - |
| Miscellaneous | | | | | |
| Donations | 181,000 | - | - | 1,020 | - |
| Other | 1,000 | - | - | - | - |
| Total Revenues | <u>193,552</u> | <u>-</u> | <u>67,965</u> | <u>3,586</u> | <u>-</u> |
| Expenditures | | | | | |
| Capital outlay | | | | | |
| General government | - | - | - | - | - |
| Public safety | 10,352 | - | - | - | 16,163 |
| Streets and highways | - | - | 257,252 | - | 307,854 |
| Culture and recreation | - | - | - | 28,180 | - |
| Debt service | | | | | |
| Principal | - | - | - | - | 45,844 |
| Interest and other | - | - | - | - | 1,779 |
| Total Expenditures | <u>10,352</u> | <u>-</u> | <u>257,252</u> | <u>28,180</u> | <u>371,640</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>183,200</u> | <u>-</u> | <u>(189,287)</u> | <u>(24,594)</u> | <u>(371,640)</u> |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | - | 83,987 | 75,000 | 273,358 | 379,622 |
| Transfers out | - | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>83,987</u> | <u>75,000</u> | <u>273,358</u> | <u>379,622</u> |
| Net Change in Fund Balances | <u>183,200</u> | <u>83,987</u> | <u>(114,287)</u> | <u>248,764</u> | <u>7,982</u> |
| Fund Balances, January 1, as Previously Presented | 413,361 | - | 724,742 | (28,442) | (49,007) |
| Change to the Financial Reporting Entity (Note 8) | | | | | |
| Change from major to nonmajor fund | - | (357,600) | - | - | - |
| Error Correction (Note 8) | - | - | - | - | - |
| Fund Balances, January 1, as Adjusted | <u>413,361</u> | <u>(357,600)</u> | <u>724,742</u> | <u>(28,442)</u> | <u>(49,007)</u> |
| Fund Balances, December 31 | <u>\$ 596,561</u> | <u>\$ (273,613)</u> | <u>\$ 610,455</u> | <u>\$ 220,322</u> | <u>\$ (41,025)</u> |

| 424 | 428 <i>(Formerly Major)</i> | 429 | |
|-------------------------|---------------------------------------|-----------------------------|---------------------|
| Facility Maintenance | 2023 Street Improvements | 2025 Street Improvements | Total |
| \$ - | \$ - | \$ - | \$ 22,033 |
| - | - | - | 45,932 |
| 1,550 | 25,366 | - | 41,034 |
| - | - | - | 182,020 |
| - | - | - | 1,000 |
| <u>1,550</u> | <u>25,366</u> | <u>-</u> | <u>292,019</u> |
| 41,091 | - | - | 41,091 |
| 1,715 | - | - | 28,230 |
| 43,600 | 374,963 | 232,396 | 1,216,065 |
| - | - | - | 28,180 |
| - | - | - | 45,844 |
| - | 1,374 | - | 3,153 |
| <u>86,406</u> | <u>376,337</u> | <u>232,396</u> | <u>1,362,563</u> |
| <u>(84,856)</u> | <u>(350,971)</u> | <u>(232,396)</u> | <u>(1,070,544)</u> |
| 40,000 | - | - | 851,967 |
| - | (284,622) | - | (284,622) |
| <u>40,000</u> | <u>(284,622)</u> | <u>-</u> | <u>567,345</u> |
| <u>(44,856)</u> | <u>(635,593)</u> | <u>(232,396)</u> | <u>(503,199)</u> |
| 171,083 | - | - | 1,231,737 |
| - | 615,173 | - | 257,573 |
| - | 20,420 | - | 20,420 |
| <u>171,083</u> | <u>635,593</u> | <u>-</u> | <u>1,509,730</u> |
| <u>\$ 126,227</u> | <u>\$ -</u> | <u>\$ (232,396)</u> | <u>\$ 1,006,531</u> |

City of Montgomery, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued on Following Pages)
For the Year Ended December 31, 2024
(With Comparative Actual Amounts for Year Ended December 31, 2023)

| | 2024 | | Actual Amounts | Variance with Final Budget | 2023 |
|--------------------------------|------------------|--------------|-------------------|-------------------------------|--------------|
| | Budgeted Amounts | | | | Actual |
| | Original | Final | | | Amounts |
| Revenues | | | | | |
| Taxes | | | | | |
| Property taxes | \$ 2,074,467 | \$ 2,074,467 | \$ 2,048,089 | \$ (26,378) | \$ 1,801,375 |
| Payment in lieu of taxes | 2,000 | 2,000 | 1,706 | (294) | 1,418 |
| Total taxes | 2,076,467 | 2,076,467 | 2,049,795 | (26,672) | 1,802,793 |
| Licenses and permits | | | | | |
| Business | 34,650 | 34,650 | 33,685 | (965) | 32,499 |
| Non-business | 69,800 | 69,800 | 36,830 | (32,970) | 74,124 |
| Total licenses and permits | 104,450 | 104,450 | 70,515 | (33,935) | 106,623 |
| Intergovernmental | | | | | |
| Federal | | | | | |
| Other | - | - | 1,675 | 1,675 | - |
| State | | | | | |
| Local government aid | 1,050,450 | 1,050,450 | 1,050,767 | 317 | 910,244 |
| Property tax credits and aids | - | - | 456 | 456 | 431 |
| Fire aid | 33,000 | 33,000 | - | (33,000) | 35,678 |
| Police aid | 65,000 | 65,000 | 84,079 | 19,079 | 65,337 |
| Other state aids | 7,000 | 7,000 | 6,082 | (918) | 10,862 |
| Total state | 1,155,450 | 1,155,450 | 1,141,384 | (14,066) | 1,022,552 |
| County | | | | | |
| Highway aid | 30,000 | 30,000 | 31,195 | 1,195 | 31,962 |
| Total intergovernmental | 1,185,450 | 1,185,450 | 1,174,254 | (11,196) | 1,054,514 |
| Charges for services | | | | | |
| General government | 1,500 | 1,500 | 499 | (1,001) | 3,750 |
| Public safety | 40,200 | 40,200 | 35,764 | (4,436) | 65,710 |
| Streets and highways | 17,000 | 17,000 | 18,601 | 1,601 | 17,356 |
| Culture and recreation | 500 | 500 | 235 | (265) | 1,530 |
| Total charges for services | 59,200 | 59,200 | 55,099 | (4,101) | 88,346 |
| Fines and forfeits | 21,500 | 21,500 | 19,662 | (1,838) | 21,743 |
| Investment revenue | 1,000 | 1,000 | 17,083 | 16,083 | 4,934 |
| Miscellaneous | | | | | |
| Contributions and donations | 1,650 | 1,650 | 6,550 | 4,900 | 2,120 |
| Refunds and reimbursements | 12,500 | 12,500 | 38,307 | 25,807 | 9,851 |
| Other | 18,100 | 18,100 | 24,534 | 6,434 | 14,443 |
| Total miscellaneous | 32,250 | 32,250 | 69,391 | 37,141 | 26,414 |
| Total Revenues | 3,480,317 | 3,480,317 | 3,455,799 | (24,518) | 3,105,367 |
| Expenditures | | | | | |
| Current | | | | | |
| General government | | | | | |
| Council | | | | | |
| Personal services | 19,243 | 19,243 | 18,904 | 339 | 18,943 |
| Other services and charges | 4,180 | 4,180 | 1,647 | 2,533 | 2,829 |
| Total council | 23,423 | 23,423 | 20,551 | 2,872 | 21,772 |
| Elections | | | | | |
| Personal services | 19,904 | 19,904 | 23,920 | (4,016) | 22,544 |
| Other services and charges | 6,750 | 6,750 | 6,378 | 372 | 1,200 |
| Total elections | 26,654 | 26,654 | 30,298 | (3,644) | 23,744 |
| Project administration | | | | | |
| Other services and charges | - | - | - | - | 883 |
| Financial administration | | | | | |
| Personal services | 316,043 | 316,043 | 322,174 | (6,131) | 355,550 |
| Supplies | 6,700 | 6,700 | 4,694 | 2,006 | 5,413 |
| Other services and charges | 112,526 | 112,526 | 98,602 | 13,924 | 101,203 |
| Total financial administration | 435,269 | 435,269 | 425,470 | 9,799 | 462,166 |
| Planning and zoning | | | | | |
| Personal services | 136,621 | 136,621 | 140,740 | (4,119) | 107,168 |
| Other services and charges | 52,200 | 52,200 | 54,116 | (1,916) | 58,415 |
| Total planning and zoning | 188,821 | 188,821 | 194,856 | (6,035) | 165,583 |
| Total general government | 674,167 | 674,167 | 671,175 | 2,992 | 674,148 |

City of Montgomery, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Continued)
For the Year Ended December 31, 2024
(With Comparative Actual Amounts for Year Ended December 31, 2023)

| | 2024 | | Actual Amounts | Variance with Final Budget | 2023 |
|--|------------------|--------------|-------------------|-------------------------------|--------------|
| | Budgeted Amounts | | | | Actual |
| | Original | Final | | | Amounts |
| Expenditures (Continued) | | | | | |
| Current (continued) | | | | | |
| Public safety | | | | | |
| Police | | | | | |
| Personal services | \$ 1,194,675 | \$ 1,194,675 | \$ 1,113,940 | \$ 80,735 | \$ 1,061,273 |
| Supplies | 36,500 | 36,500 | 41,103 | (4,603) | 36,101 |
| Other services and charges | 158,600 | 158,600 | 199,447 | (40,847) | 221,337 |
| Total police | 1,389,775 | 1,389,775 | 1,354,490 | 35,285 | 1,318,711 |
| Fire | | | | | |
| Personal services | 107,247 | 107,247 | 67,198 | 40,049 | 117,536 |
| Supplies | 10,500 | 10,500 | 9,637 | 863 | 11,667 |
| Other services and charges | 37,720 | 37,720 | 56,992 | (19,272) | 42,547 |
| Total fire | 155,467 | 155,467 | 133,827 | 21,640 | 171,750 |
| Total public safety | 1,545,242 | 1,545,242 | 1,488,317 | 56,925 | 1,490,461 |
| Streets and highways | | | | | |
| Public works | | | | | |
| Personal services | 293,477 | 293,477 | 264,092 | 29,385 | 265,659 |
| Supplies | 6,000 | 6,000 | 6,523 | (523) | 6,429 |
| Other services and charges | 174,208 | 174,208 | 177,559 | (3,351) | 185,199 |
| Total public works | 473,685 | 473,685 | 448,174 | 25,511 | 457,287 |
| Snow and ice removal | | | | | |
| Personal services | 9,000 | 9,000 | - | 9,000 | - |
| Supplies | 14,000 | 14,000 | 6,690 | 7,310 | 8,587 |
| Other services and charges | 46,500 | 46,500 | 28,863 | 17,637 | 44,713 |
| Total snow and ice removal | 69,500 | 69,500 | 35,553 | 33,947 | 53,300 |
| Total streets and highways | 543,185 | 543,185 | 483,727 | 59,458 | 510,587 |
| Culture and recreation | | | | | |
| Parks | | | | | |
| Personal services | 104,603 | 104,603 | 98,833 | 5,770 | 102,938 |
| Supplies | 9,250 | 9,250 | 14,407 | (5,157) | 10,501 |
| Other services and charges | 52,000 | 52,000 | 68,081 | (16,081) | 45,958 |
| Total parks | 165,853 | 165,853 | 181,321 | (15,468) | 159,397 |
| Library | | | | | |
| Supplies | 875 | 875 | - | 875 | 671 |
| Other services and charges | 25,100 | 25,100 | 31,236 | (6,136) | 25,956 |
| Total library | 25,975 | 25,975 | 31,236 | (5,261) | 26,627 |
| Total culture and recreation | 191,828 | 191,828 | 212,557 | (20,729) | 186,024 |
| Economic development | | | | | |
| Other services and charges | - | - | 12,882 | (12,882) | 10,436 |
| Miscellaneous | | | | | |
| Unallocated | | | | | |
| Other services and charges | 132,682 | 132,682 | 100,814 | 31,868 | 90,420 |
| Total current | 3,087,104 | 3,087,104 | 2,969,472 | 117,632 | 2,962,076 |
| Capital outlay | | | | | |
| General government | 12,713 | 12,713 | 11,516 | 1,197 | 3,219 |
| Public safety | 48,000 | 48,000 | 55,725 | (7,725) | 24,139 |
| Culture and recreation | 18,500 | 18,500 | 11,865 | 6,635 | 21,324 |
| Total capital outlay | 79,213 | 79,213 | 79,106 | 107 | 48,682 |
| Debt service | | | | | |
| Principal | 2,000 | 2,000 | 5,000 | (3,000) | 5,000 |
| Total Expenditures | 3,168,317 | 3,168,317 | 3,053,578 | 114,739 | 3,015,758 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 312,000 | 312,000 | 402,221 | 90,221 | 89,609 |
| Other Financing Sources (Uses) | | | | | |
| Sale of capital assets | - | - | - | - | 386 |
| Transfers out | (312,000) | (312,000) | (310,000) | 2,000 | - |
| Total Other Financing Sources (Uses) | (312,000) | (312,000) | (310,000) | 2,000 | 386 |
| Net Change in Fund Balances | - | - | 92,221 | 92,221 | 89,995 |
| Fund Balances, January 1 | 803,522 | 803,522 | 803,522 | - | 713,527 |
| Fund Balances, December 31 | \$ 803,522 | \$ 803,522 | \$ 895,743 | \$ 92,221 | \$ 803,522 |

City of Montgomery, Minnesota

Debt Service Funds
Combining Balance Sheet
December 31, 2024

| | 326 | 327 | 328 | 329 | 330 | |
|--|-------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------|---------------------|
| | G.O. Refunding Bonds of 2012A | G.O. Improvement Bonds of 2015A | G.O. Improvement Bonds of 2021A | G.O. Improvement Bonds of 2023A | Leased Purchase Agreement | Total |
| Assets | | | | | | |
| Cash and temporary investments | \$ - | \$ 310,944 | \$ 540,103 | \$ 2,711 | \$ (633) | \$ 853,125 |
| Receivables | | | | | | |
| Special assessments | - | 161,201 | 309,098 | 715,929 | - | 1,186,228 |
| Intergovernmental | - | - | 125 | 2,033 | - | 2,158 |
| | <u>-</u> | <u>-</u> | <u>125</u> | <u>2,033</u> | <u>-</u> | <u>2,158</u> |
| Total Assets | <u>\$ -</u> | <u>\$ 472,145</u> | <u>\$ 849,326</u> | <u>\$ 720,673</u> | <u>\$ (633)</u> | <u>\$ 2,041,511</u> |
| Deferred Inflows of Resources | | | | | | |
| Unavailable revenue | | | | | | |
| Special assessments | \$ - | \$ 161,201 | \$ 309,098 | \$ 715,929 | \$ - | \$ 1,186,228 |
| | <u>-</u> | <u>161,201</u> | <u>309,098</u> | <u>715,929</u> | <u>-</u> | <u>1,186,228</u> |
| Fund Balances | | | | | | |
| Restricted | - | 310,944 | 540,228 | 4,744 | - | 855,916 |
| Unassigned | - | - | - | - | (633) | (633) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(633)</u> | <u>(633)</u> |
| Total Fund Balances | <u>-</u> | <u>310,944</u> | <u>540,228</u> | <u>4,744</u> | <u>(633)</u> | <u>855,283</u> |
| Total Deferred Inflows of Resources and Fund Balances | <u>\$ -</u> | <u>\$ 472,145</u> | <u>\$ 849,326</u> | <u>\$ 720,673</u> | <u>\$ (633)</u> | <u>\$ 2,041,511</u> |

City of Montgomery, Minnesota
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Continued on Following Pages
For the Year Ended December 31, 2024

| | 326 G.O. Refunding Bonds of 2012A | 327 G.O. Improvement Bonds of 2015A | 328 G.O. Improvement Bonds of 2021A | 329 G.O. Improvement Bonds of 2023A | 330 Leased Purchase Agreement | Total |
|--|---|---|---|---|---|-------------------|
| Revenues | | | | | | |
| Taxes | | | | | | |
| Property taxes | \$ - | \$ 54,786 | \$ 159,801 | \$ - | \$ 181,683 | \$ 396,270 |
| Special assessments | - | 39,369 | 66,974 | 141,745 | - | 248,088 |
| Investment earnings | <u>13,239</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>13,239</u> |
| Total Revenues | <u>13,239</u> | <u>94,155</u> | <u>226,775</u> | <u>141,745</u> | <u>181,683</u> | <u>657,597</u> |
| Expenditures | | | | | | |
| Debt service | | | | | | |
| Principal | 330,000 | 115,600 | 170,000 | - | 95,000 | 710,600 |
| Interest and other | <u>9,102</u> | <u>26,668</u> | <u>48,288</u> | <u>204,535</u> | <u>87,316</u> | <u>375,909</u> |
| Total Expenditures | <u>339,102</u> | <u>142,268</u> | <u>218,288</u> | <u>204,535</u> | <u>182,316</u> | <u>1,086,509</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (325,863) | (48,113) | 8,487 | (62,790) | (633) | (428,912) |
| Other Financing Sources (Uses) | | | | | | |
| Transfers out | <u>(257,345)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(257,345)</u> |
| Net Change in Fund Balances | (583,208) | (48,113) | 8,487 | (62,790) | (633) | (686,257) |
| Fund Balances, January 1 | <u>583,208</u> | <u>359,057</u> | <u>531,741</u> | <u>67,534</u> | <u>-</u> | <u>1,541,540</u> |
| Fund Balances, December 31 | <u>\$ -</u> | <u>\$ 310,944</u> | <u>\$ 540,228</u> | <u>\$ 4,744</u> | <u>\$ (633)</u> | <u>\$ 855,283</u> |

City of Montgomery, Minnesota
Economic Development Authority
Balance Sheet
December 31, 2024

| | | G.O. Refunding Bonds of 2012A | |
|--------------------------------|-------------------|-------------------------------------|-------------------|
| | General | | Total |
| Assets | | | |
| Cash and Temporary Investments | \$ 143,408 | \$ - | \$ 143,408 |
| Receivables | | | |
| Notes | 82,105 | - | 82,105 |
| Total Assets | <u>\$ 225,513</u> | <u>\$ -</u> | <u>\$ 225,513</u> |
| Fund Balances | | | |
| Committed | <u>\$ 225,513</u> | <u>\$ -</u> | <u>\$ 225,513</u> |

City of Montgomery, Minnesota
Economic Development Authority
Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2024

| | General | G.O. Refunding Bonds of 2012A | Total |
|---|-------------------|-------------------------------------|-------------------|
| Revenues | | | |
| Miscellaneous | | | |
| Loan repayments | \$ 2,648 | - | \$ 2,648 |
| Lease payments | - | 280,427 | 280,427 |
| Total Revenues | <u>2,648</u> | <u>280,427</u> | <u>283,075</u> |
| Expenditures | | | |
| Current | | | |
| Other services and charges | 36,748 | - | 36,748 |
| Debt service | | | |
| Principal | - | 270,000 | 270,000 |
| Interest | - | 10,427 | 10,427 |
| Total Expenditures | <u>36,748</u> | <u>280,427</u> | <u>317,175</u> |
| Net Change in Fund Balances | (34,100) | - | (34,100) |
| Fund Balances/Net Position, January 1 | <u>259,613</u> | <u>-</u> | <u>259,613</u> |
| Fund Balances/Net Position, December 31 | <u>\$ 225,513</u> | <u>\$ -</u> | <u>\$ 225,513</u> |

Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balances to the Statement of Activities

Amounts reported for governmental activities in the statement
of activities are different because

| | |
|--|-------------|
| Net Change in Fund Balances - Governmental Funds | \$ (34,100) |
|--|-------------|

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

| | |
|----------------------|---------|
| Principal repayments | 270,000 |
|----------------------|---------|

Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period.

| | |
|----------------|------------------|
| Lease payments | <u>(270,000)</u> |
|----------------|------------------|

| | |
|--|--------------------|
| Change in Net Position - Governmental Activities | <u>\$ (34,100)</u> |
|--|--------------------|

City of Montgomery, Minnesota
Summary Financial Report
Revenues and Expenditures for General Operations
Governmental Funds
For the Years Ended December 31, 2024 and 2023

| | Total | | Percent Increase (Decrease) |
|------------------------------------|---------------------|----------------------|-----------------------------------|
| | 2024 | 2023 | |
| Revenues | | | |
| Taxes | \$ 2,500,718 | \$ 2,216,810 | 12.81 % |
| Special assessments | 270,121 | 413,087 | (34.61) |
| Licenses and permits | 70,515 | 106,623 | (33.87) |
| Intergovernmental | 1,443,745 | 1,247,281 | 15.75 |
| Charges for services | 243,219 | 522,892 | (53.49) |
| Fines and forfeits | 25,648 | 21,743 | 17.96 |
| Investment earnings | 72,366 | 106,384 | (31.98) |
| Miscellaneous | 262,814 | 145,106 | 81.12 |
| Total Revenues | <u>\$ 4,889,146</u> | <u>\$ 4,779,926</u> | 2.28 % |
| Per Capita | <u>\$ 1,395</u> | <u>\$ 1,364</u> | 2.26 % |
| Expenditures | | | |
| Current | | | |
| General government | \$ 671,175 | \$ 674,513 | (0.49) % |
| Public safety | 1,964,476 | 2,051,549 | (4.24) |
| Streets and highways | 483,727 | 510,587 | (5.26) |
| Culture and recreation | 322,508 | 191,539 | 68.38 |
| Economic development | 61,748 | 47,991 | 28.67 |
| Miscellaneous | 151,898 | 146,247 | 3.86 |
| Capital outlay | | | |
| General government | 52,607 | 6,811 | 672.38 |
| Public safety | 85,633 | 1,006,617 | (91.49) |
| Streets and highways | 1,216,065 | 4,477,515 | (72.84) |
| Culture and recreation | 40,045 | 303,108 | (86.79) |
| Debt service | | | |
| Principal | 761,444 | 467,032 | 63.04 |
| Interest and other costs | 379,062 | 311,820 | 21.56 |
| Total Expenditures | <u>\$ 6,190,388</u> | <u>\$ 10,195,329</u> | (39.28) % |
| Per Capita | <u>\$ 1,766</u> | <u>\$ 2,910</u> | (39.30) % |
| Total Long-term Indebtedness | \$ 10,656,750 | \$ 11,453,194 | (6.95) % |
| Per Capita | 3,040 | 3,269 | (6.98) |
| General Fund Balance - December 31 | \$ 895,743 | \$ 803,522 | 11.48 % |
| Per Capita | 256 | 229 | 11.44 |

The purpose of this report is to provide a summary of financial information concerning the City of Montgomery, Minnesota to interested citizens. The complete financial statements may be examined at 201 Ash Avenue Southwest. Questions about this report should be directed to Brian Heck, City Administrator at 507-364-8888.

OTHER REQUIRED REPORTS

CITY OF MONTGOMERY
MONTGOMERY, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2024

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council
City of Montgomery, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Montgomery, Minnesota (the City) as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 18, 2025.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.



Abdo
Mankato, Minnesota
March 18, 2025

**INDEPENDENT REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
City of Montgomery, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Montgomery, Minnesota (the City) as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 18, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2024-003 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2024-01 and 2024-002 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Abdo
Mankato, Minnesota
March 18, 2025



City of Montgomery, Minnesota
Schedule of Findings and Responses
For the Year Ended December 31, 2024

| <u>Finding</u> | <u>Description</u> |
|-------------------|---|
| 2024-001 | Segregation of Duties |
| <i>Condition:</i> | During our audit, we reviewed internal control procedures over payroll, disbursements, cash receipts, utility billing and investment transactions and found the City to have limited segregation of duties in these areas as noted below. |
| <i>Criteria:</i> | There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities. |
| <i>Effect:</i> | The existence of this limited segregation of duties increases the risk of fraud. |

Internal Control Over Payroll

| | |
|------------------------|---|
| <i>Cause:</i> | The Clerk/Treasurer controls and maintains the check stock and signature stamp, sets up and maintains employee records, runs the payroll, prepares the checks, posts activity to the general ledger, either issues checks to employees or initiates payroll transfer for direct deposit, reconciles bank accounts, prepares payroll tax returns and maintains the payroll records. The City Administrator reviews payroll before it is submitted to the bank along with any payroll changes. All wage adjustments are accompanied by a pay adjustment form which is signed by the City Administrator and the department head. |
| <i>Recommendation:</i> | We recommend that in addition to approving payroll disbursements and wage rates the City Council review amounts earned and accrued for compensated absences on an annual basis to compensate for control deficiencies with respect to payroll accruals. |

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons. Each year when general wage adjustments are made, Council approves a resolution with the non-union adjustments. The City Administrator reviews each payroll cycle before it is submitted to the bank. Also, when there is a wage increase due to a step increase, a pay adjustment form is completed and signed by the City Administrator and the department supervisor, these are maintained in employee personnel files.

Updated Progress Since Prior Year:

The City continues to train the administrative assistant and utility billing clerk in payroll processes in order to separate duties further in the future. This allows for the Clerk/Treasurer to be involved in more review processes. The City continuously reviews processes and procedures related to payroll and requires City Administrator approval.

City of Montgomery, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2024

Finding

Description

2024-001

Segregation of Duties (Continued)

Internal Control Over Disbursements

Cause: The Clerk/Treasurer controls and maintains the check stock and signature stamp, initiates and approves wire transfers, and reconciles the bank accounts. The Utility Billing Clerk also sets up and maintains vendors, matches invoices to purchase orders and receiving reports, prepares checks and maintains accounts payable records.

Recommendation: It is important that the Council is aware of this condition and monitor all financial information.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons.

Updated Progress Since Prior Year:

The City continues to train the Administrative Assistant in disbursement processes in order to separate duties further in the future. The Utility Billing Clerk has also started to be involved with the bank reconciliations. The City has also started scanning invoices into MiViewPoint which allows for department heads to code their departments invoices and send them to the Clerk/Treasurer or City Administrator to approve. Council continues to monitor all claims at the regular monthly Council meeting.

Internal Control Over Cash Receipts

Cause: The Clerk/Treasurer receives and endorses checks and currency, takes the deposit to the bank, maintains accounts receivable records, and reconciles the bank accounts, while the administrative assistant sets up and maintains customers, opens mail, receives and endorses checks and currency, generates billing statements, prepares the deposit, and posts transactions to the general ledger.

Recommendation: It is important that the Council is aware of this condition and monitor all financial information.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons.

Updated Progress Since Prior Year:

The City continues to train the administrative assistant in receipt processes in order to separate duties further in the future. The utility billing clerk has also started to be involved with the bank reconciliations. These changes allow the Clerk/Treasurer to be involved in review processes.

City of Montgomery, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2024

Finding

Description

2024-001

Segregation of Duties (Continued)

Internal Control Over Utility Billing

Cause: The Utility Billing Clerk approves new utility accounts, sets up and maintains customers and rates in Civic Systems, generates and mails billing statements, makes adjustments to accounts and maintains the receivable subledger, and controls the accuracy and completeness of, as well as, access to the utility billing program and data files. The Clerk/Treasurer takes the deposit to the bank and reconciles the utility subledger with the general ledger. The Administrative Assistant opens mail and prepares the deposits.

Recommendation: It is important that the Council is aware of this condition and monitor all financial information.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons.

Updated Progress Since Prior Year:

The City continuously reviews processes and procedures. The City's administrative assistant has started to be trained on utility billing processes to help with separation of duties, and allows the Clerk/Treasurer and utility billing clerk to be more involved in review processes.

Internal Control Over Investment Transactions

Cause: The Administrator receives investment statements in the mail, initiates investment transactions, maintains an investment subledger and spreadsheet. The Clerk/Treasurer maintains and posts activity to the general ledger and reconciles investment accounts.

Recommendation: It is important that the Council is aware of this condition and monitor all financial information.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs and by adopting an investment policy. This includes approval of expenditures, regular review of financial statements and budget comparisons.

Updated Progress Since Prior Year:

No changes noted since prior year.

City of Montgomery, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2024

Finding

Description

2024-001

Segregation of Duties (Continued)

Internal Control Over Journal Entries

Cause: As a result of the small number of staff, the Clerk/Treasurer in conjunction with an administrative assistant prepares and posts all journal entries to the accounting system.

Recommendation: We recommend the City Administrator review and formally approve manual journal entries. It is important that the Council be aware of this condition and monitors all financial information.

Management Response:

The City has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Council has addressed this circumstance by active participation in the City's affairs. This includes approval of expenditures, regular review of financial statements and budget comparisons.

Updated Progress Since Prior Year:

No changes noted since prior year.

City of Montgomery, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2024

| <u>Finding</u> | <u>Description</u> |
|---|--|
| 2024-002 | Financial Report Preparation |
| <i>Condition:</i> | As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process. |
| <i>Criteria:</i> | Internal controls should be in place to ensure adequate internal control over safeguarding of assets and the reliability of financial records and reporting. |
| <i>Cause:</i> | From a practical standpoint, we prepare the statements and determine the fairness of the presentation at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. |
| <i>Effect:</i> | The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions that management might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. |
| <i>Recommendation:</i> | Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situation listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your Civic Systems receipt and disbursement information to the amount reported in the financial statements plus or minus any applicable accruals. |
| <i>Management Response:</i> | For now, the City's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements. |
| <i>Updated Progress Since Prior Year:</i> | No changes noted since prior year. |

City of Montgomery, Minnesota
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2024

| <u>Finding</u> | <u>Description</u> |
|---|--|
| 2024-003 | Material Audit Adjustments |
| <i>Condition:</i> | During our audit, adjustments were needed to record and adjust various debt, taxes and assessments, capital assets, grant, transfer and payroll withholding activity. |
| <i>Criteria:</i> | The financial statements are the responsibility of the City's management. |
| <i>Cause:</i> | The financial statements required material audit adjustments to be reasonably stated. |
| <i>Effect:</i> | This indicates that it would be likely that a misstatement may occur and not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency. |
| <i>Recommendation:</i> | We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed. |
| <i>Management Response:</i> | |
| | The Clerk/Treasurer will review the adjustments to try to eliminate these entries in future. |
| <i>Updated Progress Since Prior Year:</i> | |
| | No changes noted since prior year. |

FORM OF LEGAL OPINION

(See following pages)

PROPOSED FORM OF LEGAL OPINION

§ _____
GENERAL OBLIGATION BONDS, SERIES 2025A
CITY OF MONTGOMERY
LE SUEUR COUNTY
MINNESOTA

We have acted as bond counsel in connection with the issuance by the City of Montgomery, Le Sueur County, Minnesota (the "Issuer"), of its \$ _____ General Obligation Bonds, Series 2025A, bearing a date of original issue of June 5, 2025 (the "Bonds"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds, and we express no opinion relating thereto.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon such examinations, and assuming the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such documents, and the accuracy of the statements of fact contained in such documents, and based upon present Minnesota and federal laws (which excludes any pending legislation which may have a retroactive effect on or before the date hereof), regulations, rulings and decisions, it is our opinion that:

(1) The proceedings show lawful authority for the issuance of the Bonds according to their terms under the Constitution and laws of the State of Minnesota now in force.

(2) The Bonds are valid and binding general obligations of the Issuer, and all of the taxable property within the Issuer's jurisdiction is subject to the levy of an ad valorem tax to pay the same without limitation as to rate or amount; provided that the enforceability (but not the validity) of the Bonds and the pledge of taxes for the payment of the principal and interest thereon is subject to the exercise of judicial discretion in accordance with general principles of equity, to the constitutional powers of the United States of America and to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted.

(3) At the time of the issuance and delivery of the Bonds to the original purchaser, the interest on the Bonds is excluded from gross income for United States income tax purposes and is

excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or the Minnesota alternative minimum tax applicable to individuals, estates or trusts; however, interest on the Bonds is taken into account in determining "annual adjusted financial statement income" for the purpose of computing the federal alternative minimum tax imposed on certain corporations for tax years beginning after December 31, 2022. The opinions set forth in the preceding sentence are subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes and from both gross income and taxable net income for State of Minnesota income tax purposes. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income and taxable net income retroactive to the date of issuance of the Bonds.

We express no opinion regarding other state or federal tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update, revise, or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur and be retroactive.

TAFT STETTINIUS & HOLLISTER LLP

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]
6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.
10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.
11. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.
12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following pages)

PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by the City of Montgomery, Minnesota (the "Issuer"), in connection with the issuance of its \$ _____ General Obligation Bonds, Series 2025A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted on May 19, 2025 (the "Resolution"). Pursuant to the Resolution and this Disclosure Undertaking, the Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the Issuer for the benefit of the Owners and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Undertaking unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any annual financial information provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Undertaking.

"Audited Financial Statements" shall mean the financial statements of the Issuer audited annually by an independent certified public accounting firm, prepared pursuant to generally accepted accounting principles promulgated by the Financial Accounting Standards Board, modified by governmental accounting standards promulgated by the Government Accounting Standards Board.

"Dissemination Agent" shall mean such party from time to time designated in writing by the Issuer to act as information dissemination agent and which has filed with the Issuer a written acceptance of such designation.

"Financial Obligation" shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). This term shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Fiscal Year" shall be the fiscal year of the Issuer.

"Governing Body" shall, with respect to the Bonds, have the meaning given that term in Minnesota Statutes, Section 475.51, Subdivision 9.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Occurrence(s)" shall mean any of the events listed in Section 5 of this Disclosure Undertaking.

"Official Statement" shall be the Official Statement dated _____, 2025, prepared in connection with the Bonds.

"Owners" shall mean the registered holders and, if not the same, the beneficial owners of any Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Resolution" shall mean the resolution or resolutions adopted by the Governing Body of the Issuer providing for, and authorizing the issuance of, the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time or interpreted by the Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

A. If Audited Financial Statements of the Issuer for the Fiscal Year ended December 31, 2024, are not included in the Final Official Statement, then the Issuer shall provide, or shall cause the Dissemination Agent to provide, to the MSRB by filing at www.emma.msrb.org, together with such identifying information as prescribed by the MSRB, an Annual Report consisting only of Audited Financial Statements for such Fiscal Year that are consistent with the requirements of Section 4B of this Disclosure Undertaking by not later than December 31, 2025.

B. Beginning in connection with the Fiscal Year ending on December 31, 2025, the Issuer shall, or shall cause the Dissemination Agent to provide to the MSRB by filing at www.emma.msrb.org, together with such identifying information as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Undertaking by not later than December 31, 2026, and by December 31 of each year thereafter.

C. If the Issuer is unable to provide to the MSRB an Annual Report by the dates required in subsections A or B, the Issuer shall send a notice of such delay and estimated date of delivery to the MSRB.

SECTION 4. Content and Format of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the financial information and operating data pertaining to the Issuer listed below as of the end of the preceding Fiscal Year. The Annual Report may be submitted to the MSRB as a single document or as separate documents comprising a package, and may cross-reference other information as provided in this Disclosure Undertaking.

The following financial information and operating data shall be supplied:

A. An update of the operating and financial data of the type of information contained in the Official Statement under the captions: Current Property Valuations; Direct Debt; Tax Levies and Collections; US Census Data/Population Trend; and Employment/Unemployment Data.

B. Audited Financial Statements of the Issuer. The Audited Financial Statements of the Issuer may be submitted to the MSRB separately from the balance of the Annual Report. In the event Audited Financial Statements of the Issuer are not available on or before the date for filing the Annual Report with the MSRB as set forth in Section 3.A. above, unaudited financial

statements shall be provided as part of the Annual Report. The accounting principles pursuant to which the financial statements will be prepared will be pursuant to generally accepted accounting principles promulgated by the Financial Accounting Standards Board, as such principles are modified by the governmental accounting standards promulgated by the Government Accounting Standards Board, as in effect from time to time. If Audited Financial Statements are not provided because they are not available on or before the date for filing the Annual Report, the Issuer shall promptly provide them to the MSRB when available.

SECTION 5. Reporting of Significant Events. This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the Issuer;
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (15) Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and,
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

Whenever an event listed above has occurred, the Issuer shall promptly, which may not be in excess of the ten (10) business days after the Occurrence, file a notice of such Occurrence with the MSRB, by filing at www.emma.msrb.org, together with such identifying information as prescribed by the MSRB.

The Issuer agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of a failure by the Issuer to provide the Annual Reports described in Section 4.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Undertaking shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the Issuer may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, if (a) a change in law or change in the ordinary business or operation of the Issuer has occurred, (b) such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, and (c) such amendment or waiver is supported by an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially impair the interests of Owners.

SECTION 9. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of an Occurrence, in addition to that which is required by this Disclosure Undertaking. If the Issuer chooses to include any information in any Annual Report or notice of an Occurrence in addition to that which is specifically required by this Disclosure Undertaking, the Issuer shall have no obligation under this Disclosure Undertaking to update such information or include it in any future Annual Report or notice of an Occurrence.

SECTION 10. Default. In the event of a failure of the Issuer to provide information required by this Disclosure Undertaking, any Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations to provide information under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Issuer to comply with this Disclosure Undertaking shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the Issuer, the Participating Underwriters and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 12. Reserved Rights. The Issuer reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or, subject to the provisions

of Section 8 hereof, to modify the undertaking under this Disclosure Undertaking if the Issuer determines that such modification is required by the Rule or by a court of competent jurisdiction.

Dated: June 5, 2025.

CITY OF MONTGOMERY, MINNESOTA

By _____
Its Mayor

By _____
Its Administrator

TERMS OF PROPOSAL

\$6,125,000* GENERAL OBLIGATION BONDS, SERIES 2025A CITY OF MONTGOMERY, MINNESOTA

Proposals for the purchase of \$6,125,000* General Obligation Bonds, Series 2025A (the "Bonds") of the City of Montgomery, Minnesota (the "City") will be received at the offices of Ehlers and Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, municipal advisors to the City, until 10:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:00 A.M., Central Time, on May 19, 2025, at which time they will be opened, read and tabulated. The proposals will be presented to the City Council for consideration for award by resolution at a meeting to be held at 7:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the City will be accepted unless all proposals are rejected.

AUTHORITY; PURPOSE; SECURITY

The Bonds are being issued pursuant to Minnesota Statutes, Section 412.301 and Chapters 429, 444 and 475, as amended, by the City, for the purposes of financing various public improvements, the acquisition of capital equipment and construction of various utility system improvements within the City. The Bonds will be general obligations of the City for which its full faith and credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated June 5, 2025, will be issued as fully registered Bonds in the denomination of \$5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

| <u>Year</u> | <u>Amount*</u> | <u>Year</u> | <u>Amount*</u> | <u>Year</u> | <u>Amount*</u> |
|-------------|----------------|-------------|----------------|-------------|----------------|
| 2027 | \$335,000 | 2032 | \$400,000 | 2037 | \$395,000 |
| 2028 | 350,000 | 2033 | 410,000 | 2038 | 415,000 |
| 2029 | 360,000 | 2034 | 435,000 | 2039 | 435,000 |
| 2030 | 370,000 | 2035 | 450,000 | 2040 | 450,000 |
| 2031 | 385,000 | 2036 | 465,000 | 2041 | 470,000 |

ADJUSTMENT OPTION

* The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

TERM BOND OPTION

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial Bonds and term Bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above. All dates are inclusive.

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2026, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2027 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

BOOK-ENTRY-ONLY FORMAT

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

PAYING AGENT

The City has selected Bond Trust Services Corporation, Roseville, Minnesota ("BTSC"), to act as paying agent (the "Paying Agent"). BTSC and Ehlers are affiliate companies. The City will pay the charges for Paying Agent services. The City reserves the right to remove the Paying Agent and to appoint a successor.

OPTIONAL REDEMPTION

At the option of the City, the Bonds maturing on or after February 1, 2036 shall be subject to optional redemption prior to maturity on February 1, 2035 or any date thereafter, at a price of par plus accrued interest to the date of optional redemption.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the City. If only part of the Bonds having a common maturity date are called for redemption, then the City or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

DELIVERY

On or about June 5, 2025, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the City will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the City, threatened. Payment for the Bonds must be received by the City at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Taft Stettinius & Hollister LLP, Minneapolis, Minnesota, Bond Counsel to the City ("Bond Counsel"), and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the City; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

By expressing its opinion, Bond Counsel is expressing its professional judgment and does not become an insurer or guarantor of the result indicated by that expression of professional judgment or of the transaction or the future performance of the parties to the transaction. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the applicability of any such state and local taxes.

STATEMENT REGARDING BOND COUNSEL PARTICIPATION

Bond Counsel has neither been engaged nor undertaken to prepare or independently verify the accuracy of any portion of the Official Statement, including the financial or operational information of the Issuer and risks associated with the purchase of the Bonds, except for statements under "TAX EXEMPTION" herein that summarize certain provisions of the Internal Revenue Code of 1986, as amended, the Bonds and any opinion rendered by Bond Counsel. Bond Counsel has prepared the form of legal opinion attached hereto as "APPENDIX B – FORM OF LEGAL OPINION."

SUBMISSION OF PROPOSALS

Proposals must not be for less than \$6,051,500 plus accrued interest on the principal sum of \$6,125,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

- 1) Electronically to bondsale@ehlers-inc.com; or
- 2) Electronically via **PARITY** in accordance with this Terms of Proposal until 10:00 A.M., Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact IHS Markit (now part of S&P Global) at <https://ihsmarkit.com/products/municipal-issuance.html> or via telephone (844) 301-7334.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the City nor Ehlers shall be responsible for any failure to receive a facsimile submission.

A good faith deposit ("Deposit") in the amount of \$122,500 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

The City and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to \$250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the City scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The City's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The City reserves the right to reject any and all proposals and to waive any informality in any proposal.

BOND INSURANCE

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the City requested and received a rating on the Bonds from a rating agency, the City will pay that rating fee. Any rating agency fees not requested by the City are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.

CUSIP NUMBERS

The City will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The City will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

CONTINUING DISCLOSURE

In order to assist the Underwriter (Syndicate Manager) in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the City will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

NEW ISSUE PRICING

The winning bidder will be required to provide, in a timely manner, certain information necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and to provide a certificate which will be provided by Bond Counsel upon request.

(a) The winning bidder shall assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at closing an "issue price" or similar certificate satisfactory to Bond Counsel setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications. All actions to be taken by the City under this Terms of Proposal to establish the issue price of the Bonds may be taken on behalf of the City by the City's municipal advisor identified herein and any notice or report to be provided to the City may be provided to the City's municipal advisor.

(b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

- (1) The City shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the City may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

Any proposal submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in this proposal.

(c) If all of the requirements of a "competitive sale" are not satisfied, the City shall advise the winning bidder of such fact prior to the time of award of the sale of the Bonds to the winning bidder. In such event, any proposal submitted will not be subject to cancellation or withdrawal and the City agrees to use the rule selected by the winning bidder on its proposal form to determine the issue price for the Bonds. On its proposal form, each bidder must select one of the following two rules for determining the issue price of the Bonds: (1) the first price at which 10% of a maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity or (2) the initial offering price to the public as of the sale date as the issue price of each maturity of the Bonds (the "hold-the-offering-price rule").

(d) If all of the requirements of a "competitive sale" are not satisfied and the winning bidder selects the hold-the-offering-price rule, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder will advise the City promptly after the close of the fifth (5th) business day after the sale whether it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The City acknowledges that in making the representation set forth above, the winning bidder will rely on:

(i) the agreement of each underwriter to comply with requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in an agreement among underwriters and the related pricing wires,

(ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and

(iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a third-party distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price rule of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Bonds.

(e) If all of the requirements of a "competitive sale" are not satisfied and the winning bidder selects the 10% test, the winning bidder agrees to promptly report to the City, Bond Counsel and Ehlers the prices at which the Bonds have been sold to the public. That reporting obligation shall continue, whether or not the closing date of the Bonds (the "Closing Date") has occurred, until either (i) all Bonds of that maturity have been sold or (ii) the 10% test has been satisfied as to each maturity of the Bonds, provided that, the winning bidder's reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the City or bond counsel.

(f) By submitting a proposal, each bidder confirms that:

(i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is party to such third-party distribution agreement, as applicable, to:

(A) report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred until either all securities of that maturity allocated to it have been sold or it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the City or bond counsel.

(B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and

(ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group and each broker dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such third-party distribution agreement to:

(A) to promptly notify the winning bidder of any sales of Bonds that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below), and

(B) to acknowledge that, unless otherwise advised by the underwriter, dealer or broker-dealer, the winning bidder shall assume that each order submitted by the underwriter, dealer or broker-dealer is a sale to the public.

(g) Sales of any Bonds to any person that is a related party to an underwriter participating in the initial sale of the Bonds to the public (each term being used as defined below) shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

- (i) "public" means any person other than an underwriter or a related party,
- (ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public),
- (iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) "sale date" means the date that the Bonds are awarded by the City to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at www.ehlers-inc.com by connecting to the Bond Sales link. The Underwriter (Syndicate Manager) will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of \$10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Telephone (651) 697-8500.

By Order of the City Council

City of Montgomery, Minnesota

PROPOSAL FORM

The City Council
City of Montgomery, Minnesota (the "City")

May 19, 2025

RE: \$6,125,000* General Obligation Bonds, Series 2025A (the "Bonds")
DATED: June 5, 2025

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you \$_____ (not less than \$6,051,500) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

| | | |
|------------------|------------------|------------------|
| _____ % due 2027 | _____ % due 2032 | _____ % due 2037 |
| _____ % due 2028 | _____ % due 2033 | _____ % due 2038 |
| _____ % due 2029 | _____ % due 2034 | _____ % due 2039 |
| _____ % due 2030 | _____ % due 2035 | _____ % due 2040 |
| _____ % due 2031 | _____ % due 2036 | _____ % due 2041 |

The City reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of \$5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per \$1,000.

The rate for any maturity may not be more than 1.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2027 maturity, then the lowest rate that may be proposed for any later maturity is 3.50%.) All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

A good faith deposit ("Deposit") in the amount of \$122,500 shall be made by the winning bidder by wire transfer of funds. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. Wire transfer instructions will be provided to the winning bidder by Ehlers after the tabulation of proposals. The City reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the City may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the City as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith. We agree to the conditions and duties of Ehlers and Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about June 5, 2025.

This proposal is subject to the City's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for the Bonds.

We have received and reviewed the Official Statement, and any addenda thereto, and have submitted our requests for additional information or corrections to the Final Official Statement. As Underwriter (Syndicate Manager), we agree to provide the City with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: ____ NO: ____.

If the competitive sale requirements are not met, we elect to use either the: ____ 10% test, or the ____ hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: _____ By: _____
Account Members: _____

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from June 5, 2025 of the above proposal is \$_____ and the true interest cost (TIC) is _____%.

The foregoing offer is hereby accepted by and on behalf of the City Council of the City of Montgomery, Minnesota, on May 19, 2025.

By: _____ By: _____
Title: _____ Title: _____